



## ECONOMIC RECONSTRUCTION



# ECONOMIC RECONSTRUCTION

*A Study of Post-war Problems*

BY

J. R. BELLERBY

ASSISTED BY

PHYLLIS DEANE, E. VICTOR MORGAN (IN VOL. II)  
M. COMPTON AND OTHERS

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## PREFACE AND GUIDE

THE aim acknowledged in these pages as the transcendent economic purpose of reconstruction is the full employment of every citizen who seeks work. "Freedom to serve and to earn" is a double right which would have long been inscribed in the constitution of every civilised State, were it not that the democracies have never hoped to make the right universal. Among those who know what its absence implies, this right assuredly comes first. Other kinds of liberty such as the rights of free thought, free speech and self-government may have significance enough to engage half the world in their defence ; but even these tend to lose weight among men who are permanently outcast from the main business of society. A withheld privilege is apt to obsess and monopolise the mind. And whoever is denied the right to maintain health, to serve the family as its responsible head, to meet men as equals, and to travel and escape from a walled-in existence, becomes scarcely conscious of other vital needs. It was to secure these primary rights that the people of Germany abandoned every other claim to freedom. And it is a matter for speculation how long the British people would endure economic privation such as afflicted Germany, before similarly surrendering their political rights to any Party which guaranteed employment.

Less than complete conquest in this field of economic liberation is scarcely safe. A nation which does not make 100 per cent. employment its planned aim, including in this not merely the fit but the unfit, the blind, the wounded, the crippled and all who are in any way defective, is likely to fail altogether because it lacks resolve. The ability to discover valuable work for men in every condition has been proved beyond question by innumerable disabled soldiers' associations, tuberculosis colonies, cripple societies, blind institutions and unemployed men's clubs. A responsible Government will adopt its human standard from these and will not rest till it has found work for every applicant throughout the State.

After the war there will doubtless be talk of revolution. Dread of a violent left wing may cause some to seek security through association with the extreme right. It is possible that Fascism by some other

name will grow and gather recruits on the pretext of saving private property, and that by its growth it may drive others to the left as offering to them the lesser evil. There may be a race of revolutions. None can know; and it is not of much concern to know. The immediate, urgent need is to generate a revolution of the true kind: one which can be vigorously advanced by all who are prepared to hold loosely whatever they hold, and are convinced that this attitude provides the only basis for a harmonious and secure system.

The prospect of the rise of such a revolution depends, among other things, on the stark clarity of its aims. It seems immeasurably better to have one far-reaching, profoundly important aim than a confusing multitude of aims. What other aim, then, within the economic field, can equal the one just mentioned? To the employee, "full employment" means everything that material can give. To employers, it means scarcely less: a permanently active and expanding market. Internationally, when all States plan, "full employment" will mean eager foreign markets, the relaxing of bitter rivalries between nations, and a trend towards mutual accommodation and orderly, planned international commerce. In effect, if the history of the past twelve years is fair evidence, a permanent world-wide condition of full employment would yield the firmest guarantee of absence of war. It would give release from the periodic prostration of trade which has cast whole nations into the hands of fanatics and driven dictators to screen incompetence behind aggression.

The goal, it is felt, is plain. According to the findings of this enquiry — if it be permissible to transfer certain conclusions to the beginning — there is no essentially economic barrier preventing the final attainment of the goal. Employment, in general, is largely a question of expenditure. Full employment calls for adequate expenditure, directed and planned so that workers are absorbed from any trade where there is a labour surplus, and employed in supplying the unsatisfied wants of the people, these wants being carefully ascertained in advance. The main difficulty lies, not in evolving a plan of employment, but in securing assent to the large volume of expenditure entailed in financing it. The amount needed can be raised in two ways: by an increase in the national fund of money; and by the transfer of money from one section of the community to another,

through loan, tax or gift, in such manner that it will be used more actively or effectively in creating employment. These methods, though simple in concept, call for profound changes in political and financial tradition. Moreover, they are possible only in a community which has learnt to believe in lavish expenditure.

The fundamental problems are not, therefore, economic ; they are psychological, moral, political. It follows that an enquiry into reconstruction, to be of practical use, must show at what exact points any proposed economic measures call for change in parliamentary method, financial tradition or popular attitude. As the main desire in the present work is to be utilitarian, there appears to be no escape from an occasional venture into the field of political and mental behaviour.

This extension of study has made necessary the exclusion of certain important aspects of reconstruction. Various questions which have been amply treated in other enquiries are omitted here altogether. No social problem, apart from unemployment, is directly examined. Housing and town-planning are discussed only in relation to the prospects of the building trade. The momentous question of redistributing industry and people after the war is not considered. Labour problems — wages, hours, conditions of work — are studied only incidentally. Such omissions imply no lack of recognition of the weight of these questions, but only the realisation that each entails a separate and special concentration of effort. Every enquiry has fixed limits ; and the present enquiry is confined to the one theme : planning to maintain " full employment ".

" Economic Reconstruction ", as treated here, is synonymous with this broad theme. Immediately after the Armistice, the plan for avoiding unemployment will involve the restoration of industry for peacetime needs ; and until this reconstructive work is done, all else is secondary. But this initial programme, which may last two or three years, is by no means the most difficult. Serious economic embarrassment will arise only when industry has fully regained pre-war efficiency and is flooding forth its vast new cataract of goods. At that point the national plan will need to be prolonged and re-shaped to meet new conditions. And it is with the prolongation of the plan that the chief interest lies.

The double task of restoring industry to normal, and then conquering unemployment permanently, calls for an investigation in



several stages ; and the findings in the present volume on national, regional and industrial planning fall into five Parts.

Part I, being introductory, opens with a chapter in which the aim of planning, " full employment ", is defined and considered.

A second chapter discusses " The Assumed Economic Order ". The whole structure of a national plan, to state the obvious, depends on the kind of economic system in which it is set. An economic plan devised to work under Private Enterprise will differ markedly from that which emerges under State-ownership. Hence, before any attempt can be made to visualise the outline of a national plan, a decision must be reached concerning the type of economic order to be assumed as setting. Chapter II gives reasons for the decision on which the present study is based.

There is a further preliminary question to be explored which affects both this volume and Volume II on International Planning. After the war, every State will have the choice either of building up a substantially independent, national plan, or of approaching other States with a view to constructing an interdependent, composite system of world planning. The two methods are perhaps not mutually exclusive ; but it is important for countries like Great Britain with widespread foreign trade to decide early what weight to attach to each sphere of action. The shape of the British national plan will depend partly on whether it is intended to increase or decrease dependence on world-wide commerce and organisation. At the end of Chapter III a conclusion is reached concerning the due relationship between national and international action ; and this conclusion underlies the rest of the enquiry, largely determining its form.

Finally, an introduction to the future task of reconstruction would not be complete without reference to the experience of the past. Chapter IV of Part I gives a brief narrative of the years 1918 to 1921 with a view to noting, in the first place, situations likely to recur, disasters to be avoided, and policies manifestly sound. In addition, a certain powerful factor may be discerned which seemed to be responsible for the widely different experiences of countries after the last war. More than a hint is given of a most efficient instrument of planning.

Part II is concerned with the main subject, national planning.

Every national plan, to be secure, must rest on adequate theory. The immediate task in Part II, therefore, is to put forward the elements of such a theory : that is, a body of reasoning designed to show what combination of economic measures will yield continuous "full employment". From this there should emerge, first, the principles, and secondly, something of the nature of a blue-print, for a post-war economic plan.

It is to the second half of Part II — in particular, Chapters VII and VIII — that the reader is referred for the first of two blue-prints attempted here. These chapters contain a chronological sketch of the main measures recommended for adoption after the war in the event of the continuance of the system of private enterprise. They present schemes, condensed from later sections, for restoring peacetime industry and maintaining employment in a competitive regime.

The necessary adjustment of these schemes on the assumption that the system is to be transformed into one of State-ownership is postponed to the end of the book.

Part II ends with a discussion of the British political system. The shifting sands of government by Party, as experienced between wars, clearly afford no secure foundation for a scientific, progressive plan. Some reconstruction of parliamentary method, to yield long-period continuity and, in particular, flexibility of financial method, seems indispensable. The question arises : How can the required changes be made in the political system without impairing its essentially democratic character or destroying the people's responsibility for their own governance ?

The third and longest Part relates to the post-war policies of the several industries. The western sector of the Scottish industrial belt, from which illustration is drawn, contains large branches of the main industries of Great Britain, including the heavy group — Engineering, Shipbuilding, Iron and Steel, and Coalmining — together with Textiles, Transport, Building and Construction, and Banking. These, and Agriculture, are examined with a view to observing what policies of self-help, or of reconstruction with Government help, may be practicable in each case after the war.

Every section dealing with an industry, however, contains proposals bearing directly on some broader issue of national reconstruc-

tion. The main features of the system of planning advanced in this book can be expressed in three phrases. But their practical application involves the weaving together of schemes as complex as the labyrinths of industry, banking, commerce, public finance and foreign trade. In Part II, where national planning is discussed in general terms, it has proved impossible to give details of the plans-within-the-plan. These details are therefore given, in respect of industry and banking, in Part III.

Thus, Shipping, Shipbuilding, Railways and other Transport give occasion for the study of planned investment. The grant of special credits for investment during the reconstruction period is examined under Engineering, the industry most concerned. Price-fixing on a national scale is illustrated by reference to peacetime experiments in Iron and Steel. Building is reviewed as an example of an industry which might be partly nationalised while remaining partly under private control. Coalmining raises problems of Continental co-operation. Agriculture is examined as an instance of the imperative need of regulating world conditions. And under Banking a scheme which holds the central place in the general system of planning is given in detail.

The fourth Part deals with Regional Planning. South West Scotland is again taken as basis. One advantage which the study of this centre of massed industry gives is that it precludes any light optimism. During the slump of 1932 and 1933 the Clyde Shipbuilding Industry had more than two-thirds of its labour unemployed — some forewarning of the economic blight which may again descend on this area unless there is a deliberate, direct attack on the local unemployment problem. The evidence is clear that however effective a national plan may be in restoring industry over large areas, black patches will remain and will demand concentrated local treatment. Regional planning, as reinforcement to national planning, appears to be a *sine qua non* of comprehensive success.

Part IV is concerned at the outset with the general framework of a regional plan. The form of plan to be submitted is designed to dovetail closely into a national plan as described in Part II. And the main interest in the preliminary chapter is to discuss what kind of co-operation will be required between national and regional authorities

in evolving, financing and administering a combined national and regional plan.

A further chapter then suggests how the regional scheme might be adapted to the conditions of South West Scotland. It is at this point that any system of planning meets its ultimate challenge. The crucial test of a programme of reconstruction is whether it can cure unemployment at the lowest point of the deepest local trough. There can be no doubt as to the extreme depth of the coming depression in South West Scotland unless steps are taken. Three or four years after the war, certain of the heavy industries in this zone, Shipbuilding, Iron and Steel, and parts of Engineering, can by no reasonable means be maintained at a level even approaching their present capacity. Tens of thousands of men will be extruded from them. Only a regional plan can save these people. And, most certainly, only a regional plan can provide 100 per cent. employment. The fundamental task, then, is to discover the shape of a regional plan which will usher the last willing man back to work in this region. In order to make sure that the bottom of the trough is touched, the survey in Part IV concludes with a chapter on schemes for re-employing the so-called "unemployable".

In a final Part an attempt is made to judge the chances of success of a plan launched in post-war conditions. A nation can scarcely succeed which does not bring to the task of reconstruction the same unfaltering effort as it shows in war. Nor will it triumph without similar regard for the enemy's strength and disposition. There will of course be obstruction. Although a given corporate programme may be good for the majority in the State, some citizens may lose; others may mistrust the plan; others may gain materially while sacrificing some measure of independence. No conceivable plan can distribute its benefits evenly. And no plan, it would seem, can escape hostility at some points. It is part of the task of reconstruction to analyse the probable grounds of frustration and assess their significance.

A conclusion may then be drawn as to the practicability of establishing an effective national plan under Private Enterprise. Although the conclusion can rest only on opinion, some decision is necessary to enable people to determine their action. In this book the main concern

is to join forces with those who consider world accord to be worth some personal economic sacrifice. People who are thus minded will want to know, first, whether a far-reaching reconstruction plan, capable of guaranteeing continuously "full employment", is a practical ideal under Private Enterprise. Failing this, they will be concerned to gain some idea of the probable personal cost of an adequate transformation of the system. It is towards a judgment on these points that the final paragraphs of the book are turned.

Acknowledgments are gratefully expressed to the Principal of the University of Glasgow, Sir Hector Hetherington, who opened the way for this enquiry and has since been a constant counsellor, assisting contacts with industry and later giving a much valued criticism of the written results. For the research fellowship and grant I am indebted to the Leverhulme Trust.

The work has been done with the aid of a small group of enquirers mentioned on the title-page or at points in the text where their material has been used. Among the studies contributed by Miss Deane are the chapters on "Co-operation between National and Local Governments" and "Rail and Road Transport", together with the bulk of "Shipping" and much of "Coalmining", but in addition she shared the preliminary discussion of the general shaping of the enquiry and there is a wide obligation due to her for judgments and suggestions. Many paragraphs bear traces of the criticisms of Dr. A. L. Macfie, with whom I have had constant discussions. For his careful reading and comments I am especially indebted. In the organising of correspondence acknowledgment must be made to Miss E. W. Hunter for a multitude of services. Frances Bellerby has helped especially with textual criticism.

Research in Glasgow is much simplified by the most enheartening readiness of people with first-hand knowledge to share what they know. Wartime conditions might have been expected to close many doors to information needed for studying after-war tasks, but there has been no serious limitation, thanks to exceptional kindness among professional and business men in Glasgow and its neighbourhood. Their numbers forbid mention of names and I hope that this collective recognition will be taken as cover for many individual thanks. In expressing appreciation I must be careful, however, to avoid implicating any contributor in the general findings. Opinions in these pages on

political aims and on economic principles and practice should be read as committing none but the present writer.

The reader's indulgence is asked in two matters. One arises from the great speed of industrial change. During the war immense experiments in reorganisation are taking place and each change makes some facet of all earlier proposals irrelevant. This book has been revised fairly consistently in the course of 1942, but many Government measures are still impending of which note cannot be taken. The second general difficulty is that when the same problem is being discussed in three different settings, national, regional and industrial, repetition seems inescapable. Refusal to repeat would, I think, often mean lack of clarity, which would be the greater sin against the reader. It may be mentioned that the index shows at what point in the text any subject has been most fully treated.

J. R. B.

UNIVERSITY OF GLASGOW  
*December 1942*



PART I

# INTRODUCTORY

## CHAPTER I

### *Full Employment*

It is a fundamental imperative that order should at some time prevail in the world. In the sphere of economics the most powerful cause of disorder is world depression, the fight for markets, the persecution of peoples by unemployment. Hence, one first step in the creation of order is the abolition of slumps and unemployment. To make sure of some measure of economic success it is sound to plan for absolute victory. There is thus derived the aim of "full employment" as the outstanding purpose of the national plan.

There are, however, other aims. Some are implicit in this central purpose. Others may be attainable in conjunction with it. Others are possibly rivals for first place. It will be well to consider some of these further purposes and to discuss their relationship to the aim of "full employment" as defined for the present enquiry.

- <sup>149</sup> <sup>next</sup> "Full employment" is used here to imply two things. For the
- (1) community as a whole it signifies the attainment of a due balance between work and leisure : a balance such that the fruits of the work combined with the leisure give the greatest total satisfaction. For each
  - (2) individual citizen it implies a guaranteed right to a just share in the work, so long as income depends in any degree on work, and to a just share in the leisure.

These are the guiding ideas. In daily practice, "full employment" means that work awaits every man who applies for it to the Labour Exchange, whatever his condition. The term includes the provision of work only for men who are positively seeking it, the voluntarily unemployed being disregarded.

Implicit in this aim is the intention to provide work that is beneficial. Much more is involved in the planning of "full employment" than



the mere quest of a condition in which all men can exercise mind and limb and be paid for their effort. The employment itself must have a purpose. Indeed that further purpose might become the single, central object of the national plan but for the fact that the purpose itself is not single. The values served by employment are innumerable and it is impossible to select one as supreme.

In this respect planning for peace differs radically from planning for war. During a war the great majority of men are cogently united in the furtherance of a single aim. Interest in it drives the whole nation and is in fact the fundamental cause of the "full employment". If any peacetime constructive purpose had the same grip on human minds it would equally cause "full employment". But no single material aim is capable of this, for the reason that the aims are many and each commands a special following. One way of planning for all aims at once is to plan for "full employment". This condition yields a high output and a wage for everyone, so that each individual secures the means of pursuing his chosen goal.

Another way of describing the same large purpose is to express it as "planning to raise the general standard of living". Creative employment cannot in fact be expanded except through the stimulus of a rise in consumers' standards. For it is when citizens receive and spend more money that fresh employment is generated. Hence an increase in employment itself depends on the raising of the general standard of living, and planning for one implies planning for both.

A certain reservation to the above paragraph is needed. There is an argument tending to show that 100 per cent. employment may be achieved only at the cost of retarding the growth of efficiency. Such an effect on efficiency would in the long run adversely influence output, and in this event planning for "full employment" would not be identical with planning for the ultimate maximum standard of living.

### *Maximum Efficiency*

The most searching challenge to the position adopted in this book springs in reality from this contention that "maximum efficiency" is not compatible with "full employment". The argument is derived from a certain estimate of human nature. It is said that when employment, turnover and profits are good, employers become much more concerned with immediate output than with devising new methods.

Established technique and plant are exploited to the full, but there is neither time nor urgent need for innovation. Employees, moreover, knowing that if one job is lost another is at hand, tend to labour gently. Works discipline declines and factory rhythm suffers.

Crudely, this means that neither men nor management will work unless driven by fear. And the corollary is that some risk of bankruptcy or unemployment is desirable as a spur to efficiency.

It can scarcely be denied that there is at least a risk of clash between "full employment" and "maximum efficiency". If this be allowed, the above argument may be carried a further stage in support of the belief that "maximum efficiency" should become the primary goal, even though 7 or 8 per cent. of unemployment is a necessary accompaniment to it. For upon the march of efficiency, it is proclaimed, rests all material progress, the long-period rise in the standard of living, the advance of civilised conditions, and the possibility of ample leisure for every citizen. Against the thesis put forward at the opening of this chapter — that the need for world order is fundamental and entails the abolition of unemployment — it is contended that world progress is also a fundamental need and that it involves a steady advance in the technique and economy of production. If measures of curing unemployment check this progress they are anti-social. They reverse the historical trend.

The argument gains still further reinforcement from emphasis upon leisure as a more significant goal than work. It will be convenient to refer shortly to this issue before the main theme, employment versus efficiency, is resumed.

Leisure, it is sometimes said, is a better medium for developing human personality than is employment. No man, the argument runs, has attained full mental stature till he has discovered the resources *within himself* for employing all his spare time to good purpose. The only way in which he can reach this state is through being educated for leisure or unemployment, in a mental environment in which that condition is deemed intrinsically good. Thus the true procedure for society is, first, to ensure that education is right from the beginning; secondly, to inculcate in all minds the notion that unemployment is an inevitable accompaniment of technical progress and should be regarded as an opportunity by those on whom it falls; thirdly, to ensure that

no loss of income shall be associated with involuntary loss of work. Such ideas, again, may be put forward as directives and not as immediately attainable aims. The trend desired might be furthered by the raising of insurance benefits, as well as by the steady transformation of school methods and the provision of fellowships for men most qualified to use their leisure. The fact that an ideal is not realisable forthwith does not destroy its claim to attention ; and in what follows there is no thought of decrying the general principle of education for, and through, leisure or unemployment. To treat the subject adequately would call for a full dissertation on life-values. Values arise both in contribution and in consumption, in the disciplined service of others and in the disciplined service of self. On the one hand, there is at least high authority for saying that to serve is good : and it is reasonably certain that for many people the qualities of a strong and vigorous life cannot be achieved without experience of the discipline of taking an effective share in the work of the world. On the other, our thesis here implies no denial of whatever is valuable in the ideal of self-cultivation through leisure. Possibly, for most men, the highest gain accrues from a judicious combination of both kinds of regime : that is, from a disciplined life based partly on leisure and partly on orderly service through industry or a profession.

A certain practical question will arise most urgently, however, after the war, namely, the treatment to be accorded to the particular people who will then be thrown out of work. Whatever the ideal aim, it must be adjusted to the character and conditions of the unemployed of that time. Concerning nine-tenths of their number it will be possible only to say, as might have been said of each of the thousands who suffered long unemployment before the war, "What he needs is to know that he is wanted, to have some rhythm and discipline in his life, to be given a job where he is an equal in a community, and to come away with an earned wage". There may be a remaining fraction who would serve themselves and their fellows best by being set wholly free on the basis of subsidised leisure ; but the great majority of individuals of this type are not among the compulsorily unemployed. In respect of those who are thrust out of industry and left derelict it can almost always be said that they are precisely the people who would both give and gain most by taking part in the world's basic and indispensable industry.

The main plan, it is therefore contended, should be designed to restore employment to all who seek it. If, at the same time, long-range plans can be introduced for making the nation wiser in its attitude to leisure and to loss of work, progress towards new levels of civilisation will be the swifter.

### *The Need for Full Employment*

Ultimately, the sole interest in every plan is its bearing on the life of the individual. When this is acknowledged, the reasons for accepting "full employment" as the aim seem overwhelming. They may ~~be~~ be briefly listed. First, unemployment itself, in the conditions arising<sup>hence</sup> from past environment and education, is the most humanly devastating of all economic evils. It creates a vacuum wherein life finds no expression. Every faculty is frustrated. Secondly, the evil falls in crushing concentration on those who are least able to defy it. Thirdly, in the said conditions, it is difficult to avoid associating income with service rendered. Complications would at once arise if out-of-work benefits were made permanently equal to full wages. But if no arrangement of this kind is feasible, unemployment inevitably begets financial hardship. Every domestic difficulty is then accentuated. Apart from the sheer want which results, there develops in relation to unemployment a stigma which no conceivable form of public education can dispel. Fourthly, the effects are cumulative. A man who remains compulsorily unemployed for many months seeks adjustment by a gradual process consisting partly of self-isolation from society and partly of the acceptance of a lower level of mental and physical activity consistent with the meagre nourishment which benefits afford. He often develops a "protective" ailment either as justification or as some claim to sympathy. In the end he becomes unemployable — principally through the fear of abandoning the safe inactivity to which after great pain he has grown accustomed. Fifthly, when unemployment spreads so that it strikes at men of stronger fibre to whom it is permanently intolerable, the threat of revolution increases. A stage is reached when such men will sacrifice anything whatever for the reasonable promise of work. The exchange they make is not always to the good, unless the consequences of Nazism and Fascism are to be deemed less bitter than those of unemployment. Sixthly, unemployment, when associated with loss of income, leads to a weakening of the home market.

Depression is deepened. Each nation tries to forge a remedy by penetrating foreign markets and closing its own. Economic nationalism grows and is accompanied by attempts on the part of great Powers to convert their empires into closed systems. If, as a result, trade is still further depressed among nations least capable of defence, policies of despair ensue. How far an economic cause of this kind prompted the invasion of China by Japan, of Abyssinia by Italy, and of the world by Germany, cannot be assessed with certainty. But it can scarcely be denied that an intimate connection exists between unemployment and the emergence of dictatorship, and between these things and aggression.

In this, then, is found the supreme and overriding reason for planning for "full employment" rather than for "maximum efficiency". Failure to conquer unemployment may mean war in perpetuity. Failure to maximise efficiency can have no such implication.

If it be urged that 7 or 8 per cent. of unemployment would not lead to war and could be ignored from this point of view, it should be replied that there is no means of planning for such a limit. A Government which does not resolve upon the utmost elimination of unemployment is likely to meet disastrous reverse. The economic system with which it grapples is not plastic; it is powerfully animate and subject to vast convulsions. A Government may succeed by deliberate, far-reaching measures in bringing the system under control; but in the absence of such measures the system is as fully capable of overthrowing the Government. In this field there is either victory or supine defeat. One condition of victory is the defining of some clear objective and the pursuit of that objective inexorably. There may be men of genius who can define some aim midway between "full employment" and intolerable depression, but few would understand them, and no Administration dare set itself the aim.

Notwithstanding all such considerations, if it were true that efficiency would decline catastrophically under a regime of "full employment", then a conclusion based even on the foregoing array of compelling grounds might have to be reconsidered. However, it has yet to be proved that planned "full employment" will cause inefficiency. Few would now level the charge of technical retrogres-

(u) sion against the U.S.S.R., where, presumably, employment has for many years been well maintained. As for Private Enterprise, no test has been possible except in abnormal conditions. In April 1920 recorded unemployment among Trade Unions fell below 1 per cent., thus yielding a state of virtually full employment ; but the period was too close to the end of the last war to afford a basis for judging whether efficiency was rising or falling. If real wages and the general standard of living were rising at the time, as seems probable, the improvement could be attributed to the continuing transition to a peacetime economy.

One ground for believing that progress at least in mechanical efficiency will be favoured by "full employment" is that this condition guarantees the steady supply of funds for capital development. When abundant work and high wages strengthen the market, employers make good profits and can afford to modernise plant. They escape entirely the desperate plight of certain industries, such as the Cotton Industry in 1932, which have become weakened to such an extent through protracted depression that they completely lack resources for recovery. During a time of full employment, although some units may not make enough surplus for their own capital needs, borrowing powers are enhanced, and by one means or another they can usually finance improvement. In general, though it may be true that when money flows in freely some employers rest, probably more prefer to ride the tide and make full use of it.

(3) Still more significant than any reasoning derived from past conditions, is the recognition that with the introduction of national planning there is likewise introduced a set of wholly new psychological factors. Some men may be relieved of responsibility, but others assume immense responsibility and will at least try to match it with unprecedented effort. Some individuals with small powers may be superseded by others with wide control, and if the new rulers have the more incisive and constructive minds, the level of efficiency will rise.

An Authority which is planning for "full employment" will inevitably at the same time plan for the swiftest compatible increase of efficiency. The one aim does not preclude the other. With the assumption of its new role the Planning Authority will find a vast range of fresh expedients available to it for stimulating output and effecting economy.

Fundamentally, at all points the problem of efficiency is psychological. If the Authority is a political body its first task will be to enlist the initiative and profound concern of all employers' and workers' organisations. Without them success is impossible. Indeed the plan should be theirs. But given this starting point, innumerable ways will open for raising efficiency. Chief of these would be to set up a Consultancy Department in every industry — its purpose being through research to promote new technique among progressive units, and through publications and verbal advice to raise the general level of all others. Then, where planning involves State aid to an industry, the support may be made expressly subject to development in organisation, equipment or method. Where a Marketing Board is established, the Board may specify methods of production when placing its orders; or when paying on a cost basis it may require the use of a cost account system which measures efficiency at each point in the productive process; or it may require the use of a limited range of standard materials, thus diminishing the cost of producing the materials. Overlap in transport and distribution can sometimes be reduced. Wherever large-scale buying, manufacturing or selling is involved, the advantages of mass enterprise appear. The wastes of over-capitalisation can be avoided through the common control of investment; and the most modern plant can be introduced by deliberate State assistance. Furthermore, there is wide scope for stimulating effort through special methods of wage payment. In a planned economy, profits will become assimilated to interest in some sections of industry and will be relatively stable, while labour, whether wage-earning or salaried, will reap the full measure of the gain from its enlarging output. In such a regime certain objections to piece rates — in particular, those which arise from the belief that piece rates swell profits rather than wages — are no longer relevant.

Such a catalogue barely hints at the possibilities of improvement; and within the broad field of "re-education", or experiment with new motive, there is unlimited opportunity for imaginative schemes. However, all the above proposals, without exception, depend on one underlying condition. In final analysis, the sole determinant of efficiency is concern.

If a planned system generates more concern than an unplanned system, it will be the more efficient. No system, however, can generate

a motive without itself being first generated by a motive. And it is for this reason that argument relating to efficiency remains indecisive so long as it is confined to systems, organisation or administration. Efficiency is the product of human stuff. All problems connected with it are initially psychological, and all solutions begin in the mind. The sequence of action in any attempt to increase efficiency is therefore, first, to evoke concern ; then, under the new stimulus, to alter or empower the system ; and finally, through the system to intensify the motive and confirm new fashions of thought.

In order to apply these ideas to post-war conditions a large assumption must be made. It must be assumed that after the war there will arise, or can be prompted into being, a new constructive urge stirring the whole nation to intense, united effort. As to the method of creating this there may be violently conflicting opinions, or, among most men, no opinion at all. One condition, nevertheless, is certain : there will be *emotion*. After the war there will be an immense and passionate release of feeling. In the beginning it will be emotion without point. But it can be given point by the launching of a bold plan for attaining some purpose that grips every mind. If "full employment" is such a purpose the fact alone of planning for this end will at least canalise, and may strengthen and deepen, national emotions. It will accumulate and direct motives already seeking outlet.

From this follows the main conclusion. If planning for "full employment" excites more enthusiasm than planning for any other aim, then it will yield as by-product the highest efficiency. It will yield greater efficiency than a policy of planning directly for efficiency.

The essential position advocated in this outline of aims can therefore be summarised as follows.

Planning for "full employment", as defined, signifies the persistent attempt to give all men work, wages and leisure ; it includes, further, the intention to make all employment constructive and to avoid war ; it facilitates, and itself depends on, a more equal distribution of income ; it is attainable only through some immediate raising of the standard of living, and implies a steady attempt to raise standards continuously ; it is compatible with a most extensive range of measures for increasing efficiency.

"Full employment" is here ranked first among economic aims in



the practical and vital sense that it is made the specific object of the national plan.

The understanding is that all the other compatible aims noted above will be pursued at the same time.

The one rival for first place is "maximum efficiency". Planning directly for "maximum efficiency", without regard for the effects on employment, *might* yield the highest possible rate of advance in output, living standards and leisure. On the other hand, planning for the complete abolition of unemployment, coupled with incidental planning for efficiency, might for psychological reasons provoke the more rapid rate of advance. There is no proof possible for either view. The ultimate ground for favouring "full employment" as the aim is that until unemployment is abolished there can be no assurance of escape from war ; and so long as war menaces the nations there can be few secure social values of any kind, little progress, and no established order.

## CHAPTER II

### *The Assumed Economic Order*

There appear to be only two economic systems from which to choose. If the State has the full monopoly, not merely of control, but of the actual possession of industry, a distinctive type of system emerges which may be called State-ownership. If, on the other hand, the productive property is held by companies, private individuals, trusts or associations in such a way that the State is not in effective possession, there exists a system of private or trustee enterprise. For brevity this will be termed here, simply, Private Enterprise. Between these two systems there can only be a medley of the two. There cannot exist anything which is distinct from these as an economic type or organism.

The essential difference between the two systems from the point of view of planning lies in the manner in which the Government, as planning authority, must exercise control. Under State-ownership the Government plans by direct administration. Everything is under its own hand. The principles of planning are straightforward, plain, inevitable. But as soon as there is any considerable departure from complete State-ownership, methods suitable to Private Enterprise must at once be applied — methods no longer based on direct control, but on compensating, supplementing, stimulating or restraining, by Government action, the swaying movements of thousands of otherwise inadequately co-ordinated industrial units.

Any leap to the totally new thus means a transition from hydra-headed control to a single control. Until this transition is virtually complete there is not in reality a fundamental organic change. No possibility exists of abandoning the method of "planning by compensation" till substantially all non-Government owners are dispossessed.

The matter of "possession" calls for emphasis. It is when the State becomes itself the owner of industry, and not merely the agent of interest-receiving shareholders, that it acquires that single, direct command over the nation's income which is the distinctive mark of State-ownership. Given this whole control of the national income, it

can directly apportion the amounts spent on consumption and investment. It regulates these vital factors as quantities substantially within its own management. When, however, a large share of the national income is concentrated in the hands of private individuals who spend, invest or hoard as they wish, consumption and investment are under multiple control ; and, again, the State can plan only by some process of compensation or adjustment.

It is true that no State can gain absolute, unqualified control over consumption, and that even under the most extreme State Socialism some measures of the compensatory type would be needed for the effective adjustment of aggregate consumption. Nevertheless, the broad statement holds that when the State receives all income before it is disbursed and can arbitrarily decide the proportion used for investment, its command over both total investment and total consumption has a directness never attainable under Private Enterprise. The conclusion is confirmed that the poles of State-ownership and Private Enterprise are widely separate. And the journey from Private Enterprise towards State-ownership has little significance for planning till it is almost complete.

This finding has much relevance for the current, insistent demand for a " new order ". Sometimes the demand relates to Europe, the assumption being that neither the old Continental regime nor the existing order imposed by Germany can satisfy, and that Great Britain should present a new system superior to both. Sometimes the implication is purely that the old order in Great Britain is itself outworn. Sometimes the appeal is for a new economic relationship among all industrial Powers in the world. In general, however, the impression is given that those who most loudly plead for change have no clear concept whatever in mind and are asking others to supply the concept. In the realm of actual construction there seems to be a well-nigh universal obscurity, which unless dispersed will bring to nought all the goodwill now abounding. The first and most imperative need, therefore, if the widespread urge for revolutionary betterment is to yield action, is to define the options, to distinguish precisely what type of building or rebuilding will become possible in the years after the war.

Past lack of incisiveness may have been due partly to unconscious

evasion of the fact that there can be only two economic systems. If one system is the old order, the other must be the new ! However disagreeable the thought, if it holds the truth there can be no valid construction till it is faced. The choice on the economic front is perhaps best regarded as a choice of evils. Both systems are human institutions run by human beings ; and both are subject to abuses causing injustice. A perfect system is inconceivable till man is perfect. And it is vain to plead for a " new order " as though some fresh scheme of economic reorganisation could of itself contain the magic to cure all wrongs. The utmost that can be said of any preferred system is that it would seem likely to serve better than its rival, given human nature as it is, or as it might be through immediate change. Even a restrained statement such as this can be based only on opinion. Human nature is uncertain and varies from one community to another, so that a system may serve one country well and be useless elsewhere. The existing economic system in each nation reflects some of the outstanding characteristics of its people ; in Germany and Italy, a readiness to accept regimentation ; in Russia, an apparent gift for communal living and an educability that is far from universal ; in the United States and the British Commonwealth a keen individualism with a most enduring edge. To graft an " unnatural " system on any of these countries might cause collapse. Moreover, a system's efficiency depends not only on the quality of the people engaged, but also on their own personal attitude to the system. Thus, were all British industrialists to proclaim with one voice their anxiety to become Civil servants, and to co-ordinate all activity under the State, a system of State-control would emerge at once and would work superbly. Were they dragooned, however, into State Socialism, the hostility aroused might paralyse the system. Considerations of this kind cannot be exactly measured ; yet they outweigh all other factors to such an extent that they preclude any scientific comparison of the two systems.

Hence the position confronting those who demand a " new order " is briefly this. The term " new order ", used in the purely economic sense, can mean only a system of State-ownership, since that is the only system organically different from the one which now exists. Further, from the point of view of planning, a partial change will avail little. The effective choice is between the system of Private Enterprise

on the one hand and complete State-ownership on the other. Finally, in the choice, a decision must be based largely on opinion: in particular, on opinion as to the potentialities of human character.

The present writer's judgment is worth no more than another's, but some statement may be in place. Part of the justification is in later chapters. A system of complete State-ownership, once established, seems to me to offer one important advantage over Private Enterprise. Under State-ownership "full employment" can be guaranteed as a matter of course — a statement, I should say, no longer in the realm of opinion (see Part II, Chapter V) — whereas under Private Enterprise the task of creating universal employment makes tremendous demands on human nature. If, of course, despite all the difficulties, Private Enterprise can be made to yield permanent "full employment", the two systems are equal on this count.

The qualifying words, "once established", raise immense issues. It is precisely those forces which prevent Private Enterprise from functioning well which likewise obstruct the change to State-ownership. And it is the apparent hopelessness of any attempt to introduce this State system which has led to its being generally ignored by the democracies.

To the difficulty of transition must be added the difficulty of maintaining State-ownership once it is in being. For unless it is upheld by the common consent of a peaceful people, anti-revolutionary force will be required to protect it, with the accompaniment of censorship and abolition of free political association and thought.

To these main points it will be necessary to return. Another consideration, in the comparison of systems, is the advance of technical efficiency. It is conceivable that a rising standard of efficiency may be more surely secured under Private Enterprise than under State-ownership. On this, however, there can clearly be no authority, but again only opinion. State-ownership may foster efficiency in one country and not in another; or it may thrive under one Administration and fail under the next; or it may give good results at first under the spur of revolution, the pioneering instinct and fierce rivalry with existing capitalist regimes, while declining later when this special stimulus is absent. The wisest judgment on the technical progress of the two systems will be the most hesitant.

Other considerations relate to the kinds of freedom which are

gained or sacrificed in each system : consumers' freedom, employers' freedom, employees' freedom : freedom to be honest or dishonest, freedom to co-operate or compete : freedom to exploit resources, freedom from personal exploitation. A separate volume would be required to examine these fully. My feeling, in brief, is that if Private Enterprise could be planned to give permanent "full employment", it would thereby assure a much greater range of freedoms than when it is subject to chronic fluctuation, and that it might, in these conditions, yield a greater total opportunity for self-expression than is possible under State-ownership. But this high hope depends most emphatically on the ability, under Private Enterprise, to guarantee continuous full employment.

The main issue is thus underlined. The essential problem is to weigh the difficulty of *planning* Private Enterprise to give "full employment" against the difficulty of *introducing*, and then *maintaining*, State-ownership.

The function of an enquiry into reconstruction is to provide the basis for a judgment on this issue. It should indicate the measures involved in either course, so that, although judgment is still in the realm of opinion, the alternative programmes are at least defined.

For this purpose it is necessary to assume as background, not one system alone, but each in turn. Thus in the first four Parts of this volume the setting assumed, except where otherwise stated, is Private Enterprise. The main effort of the present enquiry has in fact been devoted to the construction of a national plan within this setting. And the enquiry was first undertaken in the full expectation that, given the prospect of some projection of wartime liberality into the years of peace, an effective national plan could be devised.

However, when the enquiry was almost complete, doubts began to grow. Evidence accumulated that a series of political, industrial and social barriers would be raised against any plan designed under Private Enterprise, and that although each separately might not be insuperable, together they present a most formidable barricade.

It seemed wise, therefore, to consider the alternative. A fifth Part has been added, the main object of which is to examine the problems involved in effecting the full transition to State-ownership. The assumed economic setting is thus changed. Consideration is given

both to the difficulty of reaching the goal of complete State-ownership and to the task of holding the position once gained.

It is noteworthy that should the conclusion be reached that State-ownership is the preferable system, this would not make the study of planning under Private Enterprise superfluous. A minimum period for transition to complete State-ownership will be five years. In Russia the time taken was much longer. Hence, planning in the early stages of transition will proceed in conditions which reflect all the difficulties of a private economy. A Government which is bent on establishing State-ownership cannot afford to fail during this first period. To avoid failure it will need to evolve an "interim plan" wherein full account is taken of the environment of Private Enterprise.

Thus, whatever the ultimate system proposed, the initial stages of post-war reconstruction will be substantially the same — a belief developed in the last chapter of this book. There, in summary, two alternative four-year plans are set side by side, one based on the assumption that Private Enterprise is to survive, the other taking as point of departure the intention to introduce State-ownership. The essential features of the plans are alike in the first two years, and in the third year they still have much in common. It is only when the State has absorbed about three-fourths of the country's total capital that it can with safety adopt a completely new framework for the plan.

## CHAPTER III

### *A World-Wide Chain of National Plans*

ON the declaration of peace, statesmen everywhere will be confronted with the question, Should planning be regarded primarily as a national or as an international problem? What will be their sound procedure: to appoint purely national Committees for the study of each phase of reconstruction; or to convene at once an International Economic Conference? If both procedures seem sound, on which should the emphasis rest? Where is the true "centre of gravity" in planning?

This Enquiry is based throughout on the assumption that so long as nations preserve their sovereign control over money and taxation, the central feature in all economic reorganisation will be the national plan. It is not ignored that nations depend partly on foreign trade and that national plans will work most smoothly when the uncertainties of such trade are ruled out by international agreement. (In seeking export markets, every country meets tariffs, prohibitions, licence and quota systems, preferences and regional agreements, all of which are established by other States. Furthermore, all countries borrow, lend, repay and are repaid, and in the process make use of foreign currency the value of which they do not control. In numerous ways, therefore, national reconstruction is liable to be disturbed by external conditions unless the nations concerned are willing to enter into accord; and international Conferences would seem indispensable for stabilising and reinforcing the otherwise insecure national plans of the several States.)

Nevertheless, even though the interdependence of nations may reach a stage of development far beyond anything hitherto known, national planning will always take precedence over international planning so long as the several nations preserve their monetary and fiscal control. The reason is not simply that the centre of planning must coincide with the centre of power, though this is important. The main justification is that international planning itself will utterly break down unless it rests on a foundation of efficient national planning. In 1927 the first World Economic Conference met to deliberate on trade barriers and other international questions affecting industry, agricul-



ture and commerce. One issue vehemently debated was whether agricultural tariffs should be raised to the level of industrial tariffs, or whether industrial tariffs should be lowered to the level of agricultural tariffs. After exhaustive discussion, agreements were reached on this and allied questions, all of which reflected substantial approval of a trend towards free trade. The resolutions unanimously adopted might reasonably have been held to foreshadow a new era of internationalism in commerce. But whatever advance may have been made in the ensuing months, it was abruptly and decisively arrested when, in the winter of 1929-30, the whole competitive world shared America's industrial landslide. There was no longer talk of free trade nor of international planning in 1930; and from that year onwards nationalism gained ground increasingly till it reached its obvious culmination in 1939. At the beginning of the period, the depression everywhere was such that nations had little thought for anything save their own markets, safeguards and ultimate solvency. And when in 1933 a second World Economic Conference was called as the last gesture of those who hoped to stem the onrush of nationalism, it failed pitifully. Nationalism had already won.

The chief fault lay in beginning at the wrong end. States which lack the drive and ingenuity to invent national plans will never find a remedy through conferring internationally. It is only when the internal situation is developing healthily that a nation finds it easy to be generous and to offer that liberal front to other nations which smooths the way for agreement. It follows that if it is possible, as is here assumed, to devise an independent national plan which will carry a nation nine-tenths of the way towards recovery, such a plan should be adopted and exploited to the full as the true preparation for international planning.

It seems scarcely an over-statement to say that had the United States alone been prepared with a national plan to meet the emergency of 1929, the world would have been saved the fatal calamity of 1930. For although certain countries, including Germany, may have been ripening for some reaction, the extreme severity of the world depression appears to have been due largely to the spread of contagion from America. Other countries cannot presume to judge, however. If Italy had been armed with an economic plan, there would have been no need for a military plan in 1935. The fate of Abyssinia would have been what the Government of Italy itself proposed before 1930: freedom

and independence. If Germany had possessed an effective plan in 1929, the race between Communism and Nazism would never have begun. There would apparently have been no Second World War. Again, however, it is not for other competitive nations to complain. Great Britain, France, Japan, the Dominions, the Netherlands, Belgium, Poland and many others were equally devoid of preparation. Indeed, far from being prepared to plan, the majority were preparing deliberately not to plan, inasmuch as they had restored the gold standard and resumed rules which, while not absolutely precluding independent policy, rendered it so difficult that no national plan could be designed in emergency.

Argument from event is always rather insecure. But the conclusion towards which these paragraphs converge — namely, that the national plan is all-important — does not depend on history only. The substance of the theory is this. The chief aim of economic planning, whether national or international, is to maintain and steadily expand *markets*. The world market is the sum of all national markets; and it can be enlarged only by enlarging national markets. The one Authority possessing the power to expand a market — which is, when analysed, simply the buying power of the people comprised in it — is the Authority which controls the issue, distribution, and redistribution through taxation, of money. That Authority is the Government of a sovereign State. Planning, therefore, must proceed from this State Government, and will be concerned in the first place with the expansion of the buying power and the markets under its direct dominion.

In brief, when there are sixty or more national plans and as many expanding national markets, the world market as a whole will become thoroughly buoyant. In the end it will absorb all that the world can produce, provided that production is duly balanced. International planning will then enter and assume one of its true functions, which is to preserve the proper proportion between the supply of different products, as shown by the relative demand for them. Associated with this task is the international distribution of all factors of production.

Following this logic, a possible procedure for the British Government after the war would seem to be, first, to make sure that its own national plan is complete and effective especially as regards the maintenance of the buying power of the British people in all emergencies; secondly, to examine each British industry with a view to determining

its part in the national plan and giving it all the support possible without injury to other nations ; thirdly, to seek the co-operation of foreign nations in solving the problems of international industries such as coalmining, cotton, iron and steel, and the main branches of agriculture ; fourthly, to attempt by Conference and by the creation of a permanent International Planning Organisation to spread the fashion of planning among all peoples.

The ultimate goal, so long as the world is composed of more than one nation, is a world-wide chain of national economic plans. To this end the first need is a single effective plan : a plan which is national without being nationalistic, which enlarges the nation's demand for both home and foreign products, safeguards it from the worst repercussions of foreign crises, and establishes it as a permanent centre of stability. To evolve such a plan without the stimulus of preparation for war and without diminishing that liberty of thought, speech and action which is essential to manhood, would appear to be an economic contribution worthy of any State.

## CHAPTER IV

### *Past Experience : 1918-1921*

A STUDY of the weeks immediately following the Armistice of 11 November 1918 gives much ground for reassurance. In Great Britain the depression was slight ; indeed it scarcely merited the name of "Armistice slump". Only three industries were seriously affected, while the average of unemployment recorded by Trade Unions in the first six months after the war never exceeded 2.9 per cent.<sup>1</sup>

Among the industries which felt some reaction, Engineering, as might be expected, met with difficulty at an early stage owing to the sudden halt in munitions work. The *Labour Gazette* for December 1918 reports : "The engineering trades were very busy up to the date of the armistice ; during the following few days many works stopped, and on subsequent resumption there was a large transfer from war work to other engineering work. At the end of the month the state of employment was good." Employment for skilled engineers remained fairly satisfactory throughout the winter ; but women and unskilled labourers were dismissed in large numbers. The heaviest unemployment sustained by Engineering as a whole was 14.18 per cent. at the end of February 1919.

Of the textile industries, Cotton appeared to be most seriously affected. The first quarter of 1919 was said to be one of the worst periods in the history of the Lancashire trade. The dislocation was not, however, due to the change from war to peace demands, but to special factors such as the breakdown of contact with Eastern markets, monsoon conditions in India, and restrictions upon export to neutral countries in Europe.

Another large industry affected was Building and Construction of Works, scandalous though it may seem. The decline in this case could not have been purely seasonal, for the general slackness continued until May 1919. Even at the end of April, unemployment still

chief sources used for this chapter are the League of Nations *Monthly Bulletin of*  
1 *Public Finance, 1922-26*, the *Ministry of Labour Gazette*, *The Economist*, the  
*Accounts of the United Kingdom*, and the *United States Treasury Reports* and  
a *Bulletin*. References to other sources are made in the text.

stood above 10 per cent. There were signs that one obstacle to the growth of building was lack of materials ; and if this was so the experience should be highly suggestive to a future Minister of Peacetime Supply.

The general condition of all other industries appears to have been sound throughout the six months following the Armistice. Much encouragement may be drawn not only from this, but also from the knowledge that the good fortune did not arise from any prescience or design of the Government. Still better results might be gained through adequate preparation.

Abroad the experience was much the same. In the United States the slump appears to have been inconsiderable, and the *Bulletin* of the New York State Industrial Commission contains the following report in March 1919 : " Contrary to a general impression, the discharge of workers in New York State factories since the signing of the armistice has been gradual and moderate in character. Of course the adjustment has been radical in typical war industries, such as the manufacture of munitions, but regarding manufacturing in the State as a whole, the situation is otherwise, as the following percentages of decrease indicate. From November to December the total decline in the number of workers employed was 1 per cent. ; from December to January the decrease amounted to 5 per cent. ; and from January to February the decline was but 1 per cent." Later the impression was recorded that by May 1919 the post-Armistice adjustment of industry in New York State was complete.

On the Continent, Germany suffered more acutely than most nations. The Trade Union returns for the end of January 1919 showed an unemployment percentage of 6.6, denoting an abrupt decline of activity in certain basic trades. The causes ranged from revolution, strikes, disaffection and, so it was reported, general unwillingness to work, to war-engendered factors such as the collapse of transport, continued economic blockade and changed political boundaries. All these causes found expression in one outstanding economic effect, namely, extreme scarcity. There was a shortage amounting almost to " famine " in iron and steel, the ore being normally drawn from Swedish or Lorraine mines ; and an equally serious breakdown was reported in the supply of coal.

Germany's troubles spread to neighbouring nations. Switzerland,

as importer of German steel, suffered from the high cost of materials for the Engineering industry; coal was scarce; and the difficulty of exporting goods via Germany caused further embarrassment. In the Netherlands, unemployment among reporting Unions mounted to 19·5 per cent. in February 1919; but in view of the severity of Dutch seasonal conditions undue emphasis should perhaps not be laid on this figure. By October 1919 the percentage had fallen to 4·0. Among Norwegian Trade Unions there was a decline from 4·3 per cent. at the end of 1918 to 2·6 per cent. three months later. In Sweden unemployment was 3·4 per cent. in December 1918, and although there was a considerable rise in the following months, the figure was again below 4·0 per cent. by August 1919.

A perusal of *The Economist's* foreign correspondence received after the Armistice yields little evidence that there was any persistent dread of unemployment, except in certain countries as the consequence of the dearth of materials. The prevailing sentiment of the period would seem to be accurately expressed in the comment of the *Labour Gazette* for March 1919: "At the present time the world generally is short of almost everything, and there will be an abundant amount of work to be done as soon as trade and industry have readjusted themselves to the new situation".

Although the British Government took no deliberate steps to secure the country's immunity from depression, the actual financial policy of the post-Armistice period was admirably suited to the occasion. It was both sound and inevitable. Moreover, the same policy will be adopted after the present war, with the same inevitability and the same good effect. It consists simply in continuing to finance expenditure by means of an unbalanced Budget.

In 1918 the policy was apparently world-wide. At the end of that year every nation with a large army in the field, whether belligerent or not, was compelled to continue spending lavishly. To balance the Budget was in many cases virtually impossible. And one effect of the prodigal expenditure was to maintain consumption everywhere, thus preventing any serious failure of the world market.

An economic generalisation may be noted here which is of the deepest importance for any system of planning. Whenever a Government has an unbalanced Budget — whether it be unbalanced for peace

or for war purposes — the effect is to stimulate consumption. Even in peacetime, by far the greater part of a Government's payments are to people who consume marketable goods without producing more of such goods in return for the payments : for example, Civil servants, members of the Forces, teachers and other public employees, together with great numbers of State dependents receiving allowances, benefits or pensions. At the end of a war, expenditure of this kind is much swollen by the employment of thousands of men on demolition, the dismantling of works and camps and the restoration of devastated zones. Demobilisation involves further expense. After the last war the British Government spent approximately £130 million on war gratuities alone.

When the money thus paid to consumers is not drawn from taxes, but is borrowed, it invariably leads to a net increase in consumption unless industry has already reached full capacity. For if the money is borrowed from the public, it is transferred from those who are anxious to save, to others who will use it mainly for consumption. If borrowed from the banks, it constitutes new money applied directly to consumption.

For several months after the fighting ended in 1918, public expenditure far exceeded public revenue in the world as a whole ; and as a result consumption was most powerfully sustained. The apparent miracle of escape from a severe post-Armistice slump was not indeed magical at all ; it was the inevitable consequence of the overwhelming influence exercised by unbalanced budgets.

Some conception of the hugeness of the deficits can be gained from certain typical figures. In Great Britain the excess of expenditure over revenue in the quarter ended 31 March 1919 was £149 million. And during the remaining nine months of 1919 there was a deficit of £430 million, or nearly two-thirds of the amount raised by revenue in that period.

Reports of the Secretary of the United States Treasury reveal a deficit of over \$4500 million from the beginning of December 1918 to the end of September 1919. Thereafter the quarterly returns showed a surplus of revenue.

In France, according to figures published by M. Clémentel,<sup>1</sup> the Budget deficit was 46,000 million francs in 1919, or more than three

<sup>1</sup> See League of Nations, *Public Finance*, 1922-26.

and a half times the revenue for that year. The 1920 deficit was 38,000 million francs; and for the period 1919 to 1924 the aggregate was 160,500 million francs. In Belgium, revenue fell short of expenditure by about 21,500 million francs during the years 1919-25. In Italy, the deficit on current account which had reached 17,409 million lire in 1920-21 was gradually reduced in the succeeding years, but was not converted into a surplus till 1924-5. Switzerland had an unbalanced Budget till 1926. Spain was likewise in financial difficulty up to the same year. Of the defeated Powers, Germany, Austria and Hungary were in such straits that they were obliged to resort to extreme inflation, and figures of deficits had little meaning.

The position in Europe immediately after the war is summarised in the League of Nations report on *Public Finance, 1922-26*: "When the situation was reviewed at the International Financial Conference of Brussels in 1920, there were only four countries in Europe — the United Kingdom and, among ex-neutral countries, Denmark, Norway and Sweden — that had succeeded in balancing their budgets, while in all the other European States there was still a large gap between total revenue and expenditure and in many cases that gap was being filled by recourse to the printing press. Expenditure was still swollen by war charges and outlay on reconstruction; the fiscal systems generally were in a process of reorganisation; reparation and other external liabilities were still undetermined; and the existence of floating debt created great difficulties for the various Treasuries."

#### *The Replacement Boom, 1919-20*

The drawback to an unbalanced Budget as a means of reviving trade is that unless the method can be swiftly reversed after a certain point, it leads to inflation. No instrument of planning would seem more efficient than a flexible Budget; and such an instrument can be contrived wherever a capital tax is combined with consumption taxes. However, in 1919 planning by means of an adjustable Budget was not in mind. The policy which was good in the first half of 1919 was continued in the second half with disastrous effects. From the middle of 1919 prices universally began to soar, the movement being fed by the continuing tide of Government expenditure.

Even without this stimulus, boom conditions would probably have emerged. Every kind of "replacement" was necessary on an



enormous scale: the replacement of stocks of materials, inventories and consumption goods, capital equipment and plant, communications and facilities for transport, houses and other consumption-investment goods. When it became clear that the market was avid for such goods, entrepreneurs abandoned themselves to a single-minded struggle to be first with supplies. Everywhere firms worked overtime to wring the limit of advantage from the rising market.

Expenditure on capital equipment, it may be noted, has the same effect initially as Government expenditure. It gives new purchasing power to people who buy consumption goods without immediately adding to the supply of such goods. A sudden burst of expenditure on equipment must always accentuate the scarcity of consumption goods and force up their prices.

The rise in world prices in the seven months from September 1919 to April 1920 was of the order of 25 per cent. Index figures of wholesale prices expressed as a percentage of the average for 1913 showed a rise during this period from 244.6 to 305.7 in Great Britain (*Economist* index); 221 to 265 in the United States (Bureau of Labour Statistics); 371.7 to 679.1 in Italy (*Bachi*); 257.6 to 300.5 in Japan (Bank of Japan); 319 to 354 in Sweden (*Svensk Handelstidning*); and 361.9 to 590.6 in France (*Statistique générale*).

The upward surge, once begun, gave rise to every kind of vicious circle which typifies an inflationary boom. In the first place, the progressive growth in the cost of living led to the general driving-up of wages. This implied both increased costs to producers and a parallel increase in the community's capacity to buy their products. Accordingly, when they continued to raise prices in view of the higher costs, the market was not deterred from buying. On the contrary, the more prices soared, the more keenly did consumers buy in order to forestall any further rise. Secondly, certain costs lagged behind the upswing of prices, so that every fresh leap brought more profit. Employers found themselves with greater means and a greater incentive to expand; and their efforts to expand caused still more vigorous bidding-up of prices. Thirdly, the fact that trade was good meant that employers could secure accommodation readily from banks. The larger the credits granted to them, the more fuel did they pour on the inflationary fire. Finally, merchants and manufacturers were induced by the swift rise in prices to order materials up to the limit of their power, partly to

avoid future expense, partly to profit from the rising market. Probably this action created the worst form of vicious circle from the point of view of subsequent effects; for the larger the volume of orders given before the crisis, the longer was the period of dullness in buying thereafter.

### *Check and Crisis, 1920*

The end of the boom came at some point between January and November 1920 in every country affected by it. Wholesale prices reached their peak in the United States at the beginning of February 1920 according to the Bradstreet index, though later according to that of the Bureau of Labor Statistics. In Japan a seriously adverse balance of trade caused special difficulties in the first half of the year, and after a period of financial strain it was announced that certain important banks had failed. Prices began to collapse in March 1920. The turning point in Great Britain was reached in the same month, according to *The Economist* index. In Germany, Italy and France (*Statistique générale* index) prices touched their peak in April. Sweden and the Netherlands experienced the downward turn during the summer. In Norway it was delayed till September; in Denmark till October.

The times at which the check to inflation occurred in the different countries were thus so close together that a certain inference might seem justified concerning their interdependence. Until the early spring of 1920 all countries were involved in what seemed to be a headlong and irresistible boom. Cumulative forces were at work, and were apparently of such strength that they might have been expected to cause the inflation to continue at least in some of the countries mentioned. However, not one among those which published a price index experienced any substantial rise between April 1920 and the end of the year. Such a phenomenon would seem to point emphatically to connecting links spreading over the entire industrial world.

That such links exist can scarcely be denied; but it remains open to question whether they imply the subservience of every nation to the whole. Another explanation of the common experience of 1920 is at least possible, namely, that, in spite of the powerful inflationary forces at work, the upward movement was being undermined in all countries at once by forces arising from the aftermath of war; that all were thus becoming independently "ripe" for reaction; that only the slightest

shock was needed to plunge each into depression ; and that the collapse of one country was little more than the signal for the collapse of others. Two ways may be suggested in which this " ripening " may have taken place. The first, and more important, was through the progressive completion of the process of re-equipment. It is said that four years are needed for a country to reach full capacity in war production. A much shorter period would seem to suffice for changing back to peacetime industry, since much of the plant required is already in being. Thus if fairly complete replacement can be accomplished in two years, the end of that period will be marked by a double influence tending to check inflation : an increasing deluge of consumption goods coming from the new capital equipment ; and the dismissal of workers no longer required to produce such equipment. Enlarged supply and reduced demand must very soon check any boom.

Another partial cause of the maturing of the boom may have been the progressive inflation of orders from merchants and retailers. Whenever there is an artificial ballooning of demand due to fear of scarcity rather than to actual consumption, any break in confidence, however caused, leads to an almost complete cessation of ordering for many weeks. Although the evidence is only fragmentary, it seems that towards the end of the boom in 1920 orders for future delivery far exceeded any reasonable expectation of consumers' needs. Very little discouragement was therefore needed to reverse this condition and cause the most sanguine of buyers to become suddenly afraid. By the end of 1920 markets were almost universally stagnant.

It may be noted, further, that any failure of confidence destroys all the vicious circles on which a boom depends for its forward drive. Buying in anticipation of higher prices stops abruptly. Business men, made suddenly cautious, hesitate to embark on further expansion. Banks become conservative in lending. And unless wages continue to be forced upwards, not one of the factors which sustain the rising spiral survives the shock to confidence.

Undoubtedly the influences mentioned above as tending to bring the boom to an end were operating in all countries at once. Re-equipment was everywhere well advanced. The deficiency of materials was being remedied. Consumption goods were no longer scarce. Thus if the check came to all countries within the same few months, this may not imply that they were linked together by unbreakable

bonds, but that all were in the same unstable condition for the same special reasons arising from war and post-war developments.

After the spring of 1920 there were marked differences of policy in the various States ; and these differences led to widely varying experiences — a fact which strongly supports the view that independence is possible. At one extreme, Great Britain and the United States adopted a rigorous deflationary programme and suffered acutely. At the other extreme, Germany, Austria, Hungary and Poland were so far from being able to balance their budgets that they were obliged to continue an expansionist policy. In general, these countries had the same experience then as they had in the post-Armistice period, though much exaggerated. Because their budgets were unbalanced, they escaped severe depression in 1920-21 when the rest of the world was in the depths of it ; and partly for the same reason they were later caught in a whirlwind of inflation which, at least in Germany, Austria and Hungary, made their currencies worthless. Had they been able to continue with large deficits until the middle of 1921, thereafter swiftly increasing revenue to equal or exceed expenditure, they would have avoided both the worst of the depression — not, of course, eliminating it altogether — and disastrous inflation.<sup>1</sup> But such policies are for the future.

The German price level, it may be noted, soon recovered from the slight fall which took place in 1920, while prices in America, Great Britain and elsewhere were falling catastrophically. There was a peak in Germany in April 1920, then another, somewhat higher, in November 1920 ; then, after some further recession, prices began to climb steeply in the summer of 1921. In 1922 full inflation was again unleashed. During the whole of 1921 the heaviest unemployment recorded was 4.7 per cent.

### *Deflation, 1920-21*<sup>2</sup>

There is no final proof that any factor so far noted as having tended to "mature" the boom would have independently caused it to break. Little doubt seems possible, however, that without support from any

<sup>1</sup> Criticism is not implied. The failure to balance the Budget, and the inability to control the exchange rate — another factor responsible for the inflation — were due primarily to imposed conditions.

<sup>2</sup> A fuller account of the monetary policy of this period is given in a chapter by E. V. Morgan in Vol. II.

other restraint, the financial policy deliberately adopted by the British Government in 1920 would have brought inflation to a sure and abrupt end.

That policy was founded on the recommendations of the Cunliffe Committee, which reported first in August 1918. The twelve pages in which the Committee announced its preliminary findings show but one concern : to reinstate the gold standard, implicitly at pre-war parity, as soon as possible after the war.

During the first twelve months of peace the Government paid little heed to the Committee's counsel, for, as noted, it continued to spend lavishly. But at the end of 1919, when the Committee met a second time and issued a further report reiterating its main conclusions, the Government immediately gave effect to the specific proposal which it put forward as a first step. This was that, subject to certain emergency arrangements, an upper limit should be fixed to the fiduciary issue of notes, and that the actual maximum fiduciary issue reached in any year should become the legal maximum for the following year. In a Treasury Minute of 15 December 1919 this principle was established and £320,600,000 was fixed as the maximum issue for 1920.

Clearly, trade cannot expand indefinitely when the fiduciary note issue is restricted. The possibilities of further expansion, once the limit has been reached, depend on the inflow of gold, the reduction of reserve ratios by banks, an increased rate of turnover of deposits or velocity of circulation of notes, or the invention of new forms of money. None of these could proceed far without the connivance of the banks ; and during 1920 the whole banking system threw in its weight to support the Cunliffe policy. Discount rates were raised and, through the medium of the commercial banks, credit was to some extent "rationed". The Bank of England, having raised the Bank Rate to 6 per cent. on 6 November 1919, advanced it further to the exceptional level of 7 per cent. on 15 April 1920, and kept it there for twelve months.

This policy was accompanied by a sharp reduction of Government expenditure and the creation of surplus revenue for the reduction of debt. The "real surplus" available for debt extinction in 1920-21 was £230,600,000. Some of this was used for cancelling floating debt.

The result of the combined policy of the Government and banks,

coupled with the effects of reaction from the boom, was to depress wholesale prices from 310.2 (*Economist* index) in March 1920 to 178.6 in June of the following year. Unemployment, as reported by Trade Unions, rose from 0.9 per cent. in April 1920 to the unprecedented figure of 23.1 per cent. at the end of the same period. Among insured trades the percentage reached 17.8 in June 1921.

The United States followed the same policy, with the same dire results. The New York Federal Reserve Rate was raised to 7 per cent. on 1 June 1920 and was not lowered till May 1921. The National (Domestic) Debt, which stood at \$25,482.0 million on 30 June 1919, was reduced to \$24,297.9 million on 30 June 1920 and \$23,976.2 million on 30 June 1921.

The depression was marked by a collapse of prices of about 45 per cent. and a degree of unemployment which defied all computation.

It seems improbable that any part of the world entirely escaped the slump of 1921. The great majority of countries, including especially those which joined in deliberate deflation, suffered not much less than the United States and Great Britain.

In present days the maintenance of a 7 per cent. Bank Rate when men are being discharged by the hundred thousand would be evidence of derangement. In 1920-21, however, such policy formed part of a crusade. The authorities were engaged in a cause the importance of which was to them absolute : the resumption of the gold standard at pre-war parity. Before the war, London's eminence in world finance had sprung partly from its ability to maintain a gold standard with a perfectly free gold market. All traders at home or abroad who could secure sterling could thereby command an unvarying weight of gold at the Bank of England and dispose of it as they wished ; and principally for this reason they were prepared to recognise London as international financial headquarters.

During the war the exchange of sterling for gold had in practice been subject to restriction,<sup>1</sup> and the aim of the authorities in pursuance of the Cunliffe proposals was to restore the pre-war position. This meant exchanging sterling for gold again at exactly the same buying and selling prices for gold as prevailed before the war. No difficulty would have arisen but for the fact that the value of gold was being

<sup>1</sup> The legal fiction of convertibility was maintained during the war.

determined by the United States. Gold was still being exchanged for dollars at pre-war rates; and the value of gold was thus governed by the value of the dollar.

Hence the first step towards resuming the gold standard in Great Britain was to restore sterling to parity with the dollar. Sterling had depreciated in terms of dollars owing to the greater inflation in this country. The corrective was greater deflation. Presumably that was the essential purpose of a Bank Rate maintained at 7 per cent. for twelve months.

The purpose was completely defeated in 1921 by the tendency of American banks to take their cue from London. When the Bank of England had raised its rate to 7 per cent. the Federal Reserve Bank of New York followed by raising its Rediscount Rate to the same level on 1 June 1920. And the Rediscount Rate was only lowered again after the Bank of England, having failed despite a year's deflation to bring sterling back to parity with the dollar, gave up the chase and began to lower the Bank Rate. An improvement in trade in both countries coincided with the reduction of rates, and although it might be unsound to infer causality in large degree, the lowering of rates is always at least a permissive factor, a releasing of brakes, as it were, whereby the wheels of enterprise may revolve once more freely.

It is not implied in the above description that the banks were acting without principle. The gold standard had served the world well from 1896 to 1914; and so long as the supply of gold was both ample and evenly distributed there was some reason for believing, at least before the event, that its readoption would be widely salutary. Moreover, if the Bank of England and the Cunliffe Committee were prepared to demand of the nation an extreme price for this action, it was partly because they could conceive of no alternative system which would profit the world in general more fully than the gold standard. Since a superior system has now been evolved, no similar price need again be exacted. There is, it seems, little risk of a repetition of the deflationary policies of 1920-21.

Finally, irrespective of the action of the banks, there would have been severe depression in 1921 in the absence of far-reaching Government measures. For instance, no remedy would have been complete in 1921 without the organised transfer of workers from certain in-

dustries producing capital equipment — Engineering, Shipbuilding and Iron and Steel, in particular — to others producing consumption goods. Owing to the war and its after-effects, industry was unbalanced, and part of the cure for unemployment was to correct the balance. The banks were thus by no means responsible for the whole depression. This appears to have been due to three main factors : the preceding boom, which was attributable as much to industrial and Government action as to that of the banks ; the deflation of 1921, for which monetary and banking policy must be largely blamed ; and the over-expansion of war industries. To assess the relative weight of each of these factors is scarcely possible, and the attempt would not be fruitful. The constructive future task is to devise new monetary and non-monetary plans which will not merely avoid error but will *give employment* wherever it is needed. National planning involves a totally new conception of the positive function of the Government and banks as the chief creators of work. And it is to the development of this positive work-creating function that the main attention should be addressed.

In Volume II on International Planning it will be necessary to take up the narrative from 1921, country by country. For present needs an account ending in that year is enough. Although there can be no final assurance that past experience will be relevant, the events following the last war prompt certain observations which would seem valid for almost any similar occasion. A summary may be in place.

First, these events give ground for strong hope, at least as regards the first two years after the war. Assuming that Great Britain emerges a free nation, the last day of the war will mark the deepest point touched, the nadir, the bedrock of poverty from which only improvement can follow. Thereafter, as in 1918, ships and other means of transport which now carry war material will carry food and other essential goods. Machines will be turned from war production to the manufacture of the fundamental needs of civilised life. Labour will be diverted from destruction to construction. In a few months the worst stringency should be past and forgotten.

As regards employment, the evidence shows that countries can be saved by the very extremity of their stress. Because, after 1918, an almost crushing weight of reconstruction had to be undertaken, and because huge armies of people were still being maintained in non-



industrial work, budgets could not be balanced. States paid their way by methods which inevitably enlarged the demand of consumers without adding to production. The final market remained for a long time insatiable. In consequence, apart from local unemployment due to the cessation of war contracts and to the general dearth of materials and means of transport, there was little loss of work even in the early transition period; and after six or seven months unemployment virtually disappeared.

There seems no reason whatever why this should not happen again. The future operation of restoring peacetime conditions will undoubtedly be more vast. Nevertheless, the initial tasks will be, as formerly, less economic than administrative; they will concern mainly the Minister of Peacetime Supply. The general economic problem will at first be automatically solved by the inability of Governments to avoid spending.

It is when scarcity is conquered that the gravest difficulties always arise. The real menace is the "post-replacement slump". To destroy that menace is the outstanding aim of planning and reconstruction.

Inasmuch as the great catastrophe of 1921 arose largely out of the preceding boom, part of the task of preventing another such calamity will consist in rendering any future replacement boom innocuous. Last time, it was seen, the damage was caused mainly by the swiftness of the rise of prices. Twenty-five per cent. in seven months, in the conditions prevailing between September 1919 and April 1920, was obviously too rapid a rise. Another time, in similar conditions, deliberate policy should reduce this rate. However, far more important than the actual reduction of the violence of the price movement will be the Planning Authority's declared intention, universally acknowledged, to prevent any rise of prices capable of generating the vicious circles which add fever to the boom and lead eventually to the prostration of trade.

As for the details of the planning measures designed to fend off a future post-replacement slump — for example, the precise means of avoiding inflation; the types of taxation which will at a stroke transform a Budget deficit into a surplus; the reserve plans and funds wherewith to defeat the slump if, notwithstanding other preparation, it should appear — these are matters for discussion in Part II. The purpose of the above record is only to present certain finger-posts.

## PART II

# NATIONAL PLANNING

## CHAPTER V

### *Principles of Planning*

It will be helpful to begin the discussion of national planning by considering first the simplest case, namely, that in which the State owns all industry. Where the State is in complete command, industry is one firm ; the principles of planning become self-evident ; and when the clear outline which these principles gain in such a setting has been distinguished, the same outline can be considered in relation to Private Enterprise.

In a system of State-ownership, planning is built on a skeleton of four main decisions :

(1) The first of these governs the quantity of consumption goods to be produced during the year immediately in prospect. This decision entails a compromise between present and future needs. Labour not required for making current consumption goods can be diverted to the manufacture of capital equipment for raising future standards ; and the decision determining the output of goods for immediate use is therefore reached after full consideration has been given to the relative importance of the future.

This decision gives rise to a twofold plan of production. The first part concerns the manufacture, with a minimum of labour, of that quantity of consumption goods which has been approved for the coming year. The second is designed to absorb all the remaining labour in the production of capital equipment. Every detail of this second part is governed by consideration of the particular kind of consumption goods which the country will most urgently need for improving its future standards.

Upon the magnitude of this joint plan depends the power to abolish unemployment completely. The size of the plan depends partly, however, on the ability to pay all people engaged ; and its success will be judged by the capacity to arrange for the consumption of every-

thing produced. The three further decisions are designed to secure these ends : to make sure, in particular, that the community shall be endowed with enough "consuming power".

(2) Under a second decision, the price list of all current consumption goods is established.

(3) From the prices shown, coupled with a further list giving the quantities of the articles to be produced, an estimate can be made of the total price of the coming year's consumption goods. A further decision is then required fixing the scale of wages, salaries and benefits throughout industry and the public services, so that the total of these will yield a national money-income sufficient, after allowing for hoarding, to meet the estimated total price.

(4) The final decision determines the method of creating new money, and injecting it into the system, so that the scale of salaries, wages and benefits, as fixed, can be paid.

Money, in a system of State-ownership, circulates in much the same manner as in any other system. It moves in a continuous flow *from the State to the wage-earner in return for labour, and back from the wage-earner over the counter to the State in payment for State-produced goods.* Money thus received by the State in exchange for goods in one period is used for paying the wages of those who produce goods for sale in the following period. But this money will not be enough to meet the total wages-salaries-benefits bill whenever, for any reason such as increasing efficiency, it is decided to raise this total ; and the deficit will have to be made up by new issues of money.

One method of meeting the deficit would be for the State to create new money through its Banking or Issue Department for paying social benefits or the salaries of its own administrative staff. The State's revenue for this purpose is ordinarily drawn from the margin between (a) the total price of all consumption goods sold during the year and (b) the total cost of wages and salaries directly involved in the production of the goods. Whenever these wages and salaries are raised, *i.e.* out of the proceeds of sales, the margin falls and the residue of money left for the State is not enough to finance its public services. The simple adjustment is for the State to create more money for itself through its Banking or other relevant Department.<sup>1</sup>

<sup>1</sup> There is no risk of undesired inflation in this scheme, since the average price of consumption goods is arbitrarily fixed at the outset under Decision (2). This average price determines the money supply, not vice versa.

Under State-ownership it is thus possible to devise a system of planning which in theory has no economic flaw, though in administration it may present great difficulties. Perfect smoothness in operation may not be possible in a plan which involves the fixing of a scale of wages covering the entire industry of a country. And the co-ordination of every branch and detail of a nation-wide production programme is itself a most imposing task of organisation. Nevertheless the problems are purely human and administrative. Breakdowns can occur only through personal or industrial friction, or through the failure of some pivotal aspect of administration such as the provision of transport, housing, specialised labour or machinery at exactly the right time and place. In theoretical "shape" the plan is of the utmost simplicity. Indeed it may be summarised in a few words. The logical beginning is a decision fixing the amount of the forthcoming year's consumption goods. That gives rise to a combined plan, first, for producing the specified consumption goods ; secondly, for producing capital equipment. The two parts of the plan must together be large enough to absorb all workers. Thereafter, it is necessary to ensure the adequacy of consuming power. The prices of consumption goods having been fixed, the wages-salaries-benefits bill must be adjusted till it permits the purchase of all consumption goods at the given prices. If the adjustment calls for more money, there must be a decision as to the manner of creating and issuing the extra money.

### PRIVATE ENTERPRISE

Under State-ownership, industry is one firm ; under free enterprise, it is hundreds of thousands of firms. This primary distinction substantially affects planning methods ; but it does not affect the fundamental conditions to be achieved. The aim, whether under State-control or under Private Enterprise, is to develop consumption-goods industries and capital-equipment industries so that the combined expansion in both spheres will give employment to all available hands. Moreover, the relationship between the two spheres is essentially the same in both systems. A certain quantity of capital equipment of a given type and efficiency will yield a certain quantity of consumption goods. Effective planning consists in expanding these two quantities adequately *and in due ratio*.

The main consideration in both systems is consumption. As Adam Smith has said, "Consumption is the end and purpose of all production". It follows not merely that consumption must be planned in order that production may be planned; there is need always to estimate the *amount of consumption which can be planned*. To produce more capital equipment than is needed to make the goods for which there is a market is waste; to produce less defeats the plan. These facts are obvious in a system of State-ownership; they remain true in a system of Private Enterprise.

There is a further similarity between the two systems. The quantity of capital equipment to be produced depends, it has been said, on the intended output of consumption goods. But the output of consumption goods, in turn, depends ultimately on the community's "consuming power". In the last resort it is "consuming power" which governs everything.

The term "consuming power" is used throughout these pages to denote a double condition: the possession of money by consumers and their readiness to spend it on consumption goods. Money in the hands of people who intend to save nine-tenths of it can only, following this usage, be one-tenth "consuming power".

In a system of Private Enterprise the planning of consuming power calls for measures similar to those described above. There is need, first, for some control over the prices of consumption goods, otherwise the expansion of consuming power may be neutralised by a rise of prices. Secondly, substantial influence is needed over the community's total income and expenditure. And thirdly, there must be adequate power to expand the supply of money.

In brief, the problem of planning under Private Enterprise may be most thoroughly examined by considering the action possible in accordance with the same four decisions as provide the framework under State-ownership.

This, as noted, does not imply that the methods are the same in both systems. Under Private Enterprise, the Government suffers one serious handicap, and has one particular advantage which may redeem its position. The handicap is that there is no single important factor completely controlled by the Government. All that the Government

can do is to *supplement*. It cannot fully control the output of consumption goods ; but it can supplement or subsidise their production. It never attempts the large-scale production of capital instruments ; yet it can, in case of need, promote capital development by cheap or guaranteed loans. It does not fix the average of prices, though certain individual prices may be under its control, and influence may be brought to bear on the general level of prices through monetary policy. It does not control all monetary policy, but can exert pressure through laws affecting the note supply, and through borrowing from the banks and other means. It has no direct sway over the general level of wages, interest or rent, but it may affect all in some degree by its own terms of borrowing and conversion of loans. The distribution of income is in general outside its command ; yet it can *redistribute* a large share of income through taxation. Thus there are innumerable influences which, when combined and co-ordinated, may give the Government the economic dominion it needs. Nevertheless, it suffers serious limitation through not having complete and final control over any one factor.

The largely offsetting advantage is that the one main factor over which the Government can develop the fullest sway is by far the most significant : namely, the people's "consuming power". Later it will be shown that there is an immense range of expedients whereby the Government can increase its ability to supplement, and thereby substantially to regulate, the purchasing power of final consumers. Both by redistributing income through taxation, and by issuing new money and directing it into channels where it will be most appropriately spent, the Government can contrive for itself a "handle" for gripping the system precisely at the point where it is most needed.

There is in fact a strong *prima facie* argument for believing that nothing more is needed to make planning possible under Private Enterprise than this ability to regulate "consuming power". Give people in need enough money to spend, it is said, and they will buy all that industry can produce. The demand will call forth the supply. Moreover, a strong and persistent demand for consumption goods leads to a healthy demand for capital equipment. And so long as the final market is strong, the banks will play their part in granting the credit required for trade expansion. The measure of the strength of the

whole system is thus the strength of the market for consumption goods. If this market be maintained, so runs the argument, there is no need for concern about any other factor.

This thesis appears to contain a substantial core of truth and, indeed, it provides the chief foundation for the suggestions made in this chapter. Nevertheless, it overlooks much. Two recent experiences, in particular, make a careful restatement of the argument necessary. One is the limited effect of war preparation. Since 1937 the Government's vast programme has directly and indirectly enlarged "consuming power" and has spread demand over a wide range of commodities. Yet it required two years of intensive war preparation, six months of actual war, and the absorption of a million men into the Forces, to bring down unemployment below a million. Meanwhile prices have risen considerably. And they would have risen much further but for rationing and other precautions.

Another relevant experience is that of capital-equipment industries in South West Scotland — Engineering, Shipbuilding, Iron and Steel — in the ten years before the war. After 1929 certain sections of these industries suffered a depression of such depth and duration that it seemed impossible for them ever to regain full employment-strength by any peacetime traditional means. An examination of their condition in those days leaves an ineffaceable conviction that no *generalised* economic remedy could have met their need. Their salvation was, in fact, the war. In peacetime their restoration would have involved the economic equivalent of a war: a programme of development focussed directly upon them in great concentration, calling for the production of new machinery and ships, and the establishment of new workshops making wares for immediate consumption or destruction.

The general expansion of British "consuming power" at that time would have touched these industries slightly at first, and more considerably after it had begun to prompt fresh demands for capital equipment. But certain branches of them, together with the Coal Industry and other mining, had been cast into an abyss so profound that they would have been left far behind in the general upward swing. The expansion of "consuming power" would have caused scarcity and soaring prices in other industries long before these had begun to approach full-capacity production.

There are at least three ways in which the expansion of consuming

power may produce effects other than an increase in employment. In industries where almost the same personnel is required irrespective of turnover — Railways, Shipping, small-scale Retail Distribution, Cinemas and Entertainments, Hotels and, finally, all industries with a high proportion of instrumental capital to labour engaged — the effect of expanding demand is to raise profits and turnover, and possibly wages and prices, without considerably affecting employment. In other industries there may be a shortage of skilled labour, and the effect will be to raise prices, profits and wages. In yet others, the number of firms or the amount of their equipment may have been cut down during depression. In this case, when demand expands, the managements may prefer the immediate sure gain from shortage of supplies and advancing prices, to the doubtful gain of increasing turnover with the aid of new plant.

Thus, although it may be said that the expansion of "consuming power" is a *sine qua non* of trade revival, it does not follow that such expansion will invariably lead to a rapid reduction of unemployment. The new "consuming power" will exercise a pull; it will tend to drain goods from the channels of industry. But it does so against resistance. Supplies pass through bottle-necks; and wherever there is a bottle-neck, prices rise. Then, the power to drain away goods in such quantities that unemployment will be largely reduced depends on the ability to draw labour from one occupation to another. Against this there are barriers of such serious and varying kinds that immediate results cannot reasonably be expected, unless they are deliberately planned.

Theory and experience thus apparently combine to show that it is not enough merely to expand the incomes of final consumers. Effective planning demands both the expansion of general consuming power and the elaboration of a most detailed plan of production: a plan designed specifically to employ those categories of workers which are known to be unemployed.

The conclusion is therefore reinforced that the most sound and comprehensive approach to the problem of planning under Private Enterprise is to consider what measures can be devised which will reproduce, in the fullest possible detail, the results gained under each of the four decisions which form the skeleton of the plan under State-ownership.



*Decision I. Consumption Goods<sup>1</sup> — A Plan for their Production*

*(a) National Purpose and Values*

The beginning, in a plan, is a philosophy of values. Every Government acts, consciously or unconsciously, on such a philosophy. The values favoured by the British Government include personal freedom, health, education, increasing equality of opportunity, economic security, national display, art and science. The list is already fairly comprehensive; but although few items can be added to it, each item may emphatically be much extended. And the first step in any plan is to decide what are the values to be developed.

No Government can escape the question, What should the people consume? When the Government has decided this, it then has a foundation for the logical development of a national plan.

In a system of Private Enterprise the Government can determine which are the most valuable forms of consumption without interfering seriously with the consumer's personal choice. The Government's decision covers only the field of its own action; and although this field must inevitably be enlarged until all men are employed, it will leave a wide area for the expression of the consumer's own taste. Moreover, the choice made within the Government's field must in general reflect the wishes of a large majority of the voting public. If it failed to do so, the Government would be removed.

There are certain values the promotion of which could lead to limitless activity, and therefore to limitless employment. Among these are the physical and aesthetic values arising from good housing. Next to food, housing probably comes first on the list of positive aids to wellbeing. Space, air and light are elementary needs; and they can be multiplied indefinitely through steadily improving standards of house construction.

What is more, if the Government creates new standards in this regard, it gives impetus to the improvement of standards in related spheres, including house decoration, furnishing and gardening. Then, the actual cubic space of a dwelling governs certain main items of

<sup>1</sup> Houses and other durable goods, whether bought by private consumers or by the Government, are included as "consumption goods" unless their main purpose is to assist the production of other goods, in which case they are classified as capital equipment.

household expenditure in addition to rent and rates : for instance, heat, light, repair and cleaning. Thus, if the Government combines an extensive programme of new housing with a general plan for increased consuming power, it will cause expansion in a widening circle of industries — expansion which is potentially almost without limit.

Another set of values which a Government may promote are those related to travel. Travel is educational. It is health-giving. It may be a means of advancing peace. Vast sums have been spent on war, and on travel in the interests of war. Equally vast sums could, if necessary, be spent on travel for purposes of peace, through the international exchange of staffs, students and specialists, subsidies for world conferences covering every common interest, and support for holidays overseas for large armies of friendly people. Again, the provision of facilities for travel is, by its nature, capable of extension without limit, and of yielding limitless employment.

Education is of the same nature. Every branch of modern learning leads to increasingly remote areas of research, and the enquirer's equipment becomes ever more elaborate. It is only necessary to mark the difference between a lavishly furnished elder university and one which is newly founded, to realise what large resources of skilled labour might be employed purely in laying the material foundation for a nation's full cultural development.

A further sphere of Government activity for promoting essential values would include the clearing of open spaces, laying out of parks and recreation fields, the preservation of the natural beauty of the country, the destruction of the hideous work of uncontrolled development, and the promotion everywhere of an architecture consonant with the natural scene.

In administrative terms, the Planning Authority needs a Department for National Development charged with the task of evolving plans for the double purpose of employing labour in trades liable to severe unemployment, and of promoting those national and social values which are the due concern of a Government. The National Development Department would classify all plans according to a "hierarchy of values", setting at the top of the list those which in its opinion served the country's most urgent material and personal needs. Its catalogue of schemes would be of great scope and variety : some for swift, emergency application, others for continuous, progressive

or limitless development whenever a condition of poor trade was proving obdurate.

(b) *The Labour Surplus to be Employed*

Efficient planning calls for a detailed analysis of the labour market to show precisely what categories of labour are unemployed. In the first year of the war, enquiries were being urgently pressed forward by the Ministry of Labour to bring to light any resources of man-power still available for the munitions drive. Investigators were combing industrial areas for precious skill and energies that could be trained; and the work progressed under the pressure of a felt need. Plans driven during peace with the same sense of urgency would thrive. A war of construction demands a like search for unused talent—not primarily in order to divert or re-train it, but rather with the aim of harnessing it to constructive schemes designed to give it full expression in the national interest.

One reason why war preparation failed for many months to restore industry fully, despite huge expenditure, was that the change in the direction of spending caused dislocation. Peacetime activity tended to recede as rapidly as war activity advanced. A national peacetime plan would be designed to avoid such dislocation and, as far as possible, employ men in their own trade and place of work.

Suppose, then, that the survey of unemployment were to reveal a condition of general slump, with some industries specially burdened, and that the figures of out-of-work comprised 300,000 miners and metal workers, 200,000 engineers, 100,000 shipbuilders, 100,000 builders, 150,000 textile workers, 50,000 agricultural workers, 40,000 leather and shoe operatives, and smaller numbers in other trades. The procedure from that point would be to make an estimate, based on earlier experience, of the proportion of these workers which might be permanently absorbed into industry through the permanent expansion of consuming power. It would be assumed that such expansion would be continued, by methods about to be described, till unemployment had fallen to a low level in many industries and a sharp rise of prices was threatened. And on that assumption a forecast would be made of the hard core of unemployed in the remaining industries.

With these data, the Planning Authority would turn to its National Development Department with an invitation to put forward the first

schemes on its list which would absorb the labour groups comprised in the "hard core". Some of the Department's schemes would be of the nature of public works ; some would involve subsidies to industries ; some would call for the direct distribution of consumption goods ; and some might take the form of State Industries for engaging men not immediately needed elsewhere ; but from the wide selection available at least one effective scheme could be found for re-employing any section of the unemployed, whatever might be their trade. Agriculture could be aided by school meals, free milk, and better food in hospitals and public institutions, and by Government purchase of standard farm products at suitably fixed prices ; textiles, leather and shoe industries, by the provision of sports outfits in schools, camp equipment and uniforms ; printing, paper-making, publishing and bookselling, by the development of education in all its forms ; ship-building, shipping, road and rail transport, by the heavy subsidising of travel ; mining, by the local substitution of intensive agriculture, afforestation, and the temporary introduction of workshops for giving training in new trades and producing a wide variety of commodities for mutual exchange within the mining area ; building, quarrying and associated trades, by schemes of housing ; general labour, by road-making and the laying out of parks, swimming pools, artificial lakes and recreation fields.

Not all these plans would be required at the same moment ; indeed many would never be required at all. The suggestion is only that there need be no such thing as a "hard core" of unemployed. When the Government is inflexibly determined that it shall not exist, by far the most important step will be the rapid expansion of general consuming power. This will efface unemployment altogether in a large part of industry. The remaining stubborn patches will at least be reduced in size and can then be attacked by special local and industrial schemes such as the National Development Department is called upon to invent. In the survey of industries made in Part III it is shown that for every industry, without exception, there is an appropriate treatment for which the Government could, if it would, make itself responsible ; and (if this were still to leave a surplus of labour, the workers could be employed by State Industries (for details see pp. 323-7) pending transfer to private firms producing consumption goods. It is a matter of inevitable and reassuring logic that such firms must sooner or later

adequately expand if consuming power is continuously expanded.

In a changing world-economy some industries must no doubt face the inevitability of permanent decline. To continue supporting semi-exhausted mines, wartime munition works, or branches of export industries producing articles for which there can never be a renewed demand would be absurd. The responsibility in this case is for the men employed. They are entitled to re-training, transfer and if necessary re-housing in the new areas to which they may go. And again, it is the task of the National Development Department to be ready with the plans.)

It seems incontestable that any Department which was wholly released from regarding cost could devise measures for employing fruitfully every pair of hands in the country. If that is conceded, there remains for consideration only the problem of facing cost: the cost, if any, of increasing general consuming power; and the cost of financing local schemes for absorbing those who, despite the growth of consuming power, remain unemployed. This crucial matter of finance will be considered after some reference has first been made to another aspect of production planning.

(c) Planning the Supply of Capital Equipment

The tendency of capital-equipment industries is in general to outrun demand and attain an almost reckless over-expansion when times are good. The fault rarely lies with the industries themselves, for they do little more than receive and fulfil orders. Over-expansion is caused purely by the universal economic habit of investing more money in good times than in bad. If there were no bad times there would be little fluctuation in investment. And to the extent that a Planning Authority can sustain trade continuously through regulating consuming power, it will steady and strengthen the demand for capital equipment.

But this is not enough. Consuming power itself is influenced by the volume of investment. Control will be easiest, therefore, if it is applied at both ends at once. In addition to developing its control over consuming power, the Authority should as far as possible plan the volume of investment by special direct schemes.

The planning would involve two stages: first, the computation of a desirable rate of investment for each industry; secondly, the

devising of controls suitable to each industry's particular conditions for maintaining the selected rate.

The task of estimating the proper investment rate meets at the outset a certain difficulty. Many industries show great unevenness in equipment, some firms being fully modernised, whilst others survive with primitive plant. The ideal rate of investment would thus seem to be that which would forthwith raise all parts of the industry to the level of the most efficient, even though the attainment of this within a year would leave little to be done in the following year. Such a policy would in truth be sound provided always that, when the new equipment was in place, the Planning Authority could raise consumption as swiftly as it had increased equipment.

In effect, the more nearly absolute a Planning Authority's control over the volume of consumption, the more safely can it permit large waves in investment. And its estimate of the safe rate of investment for any industry will depend on the assurance it has of being able later to expand the demand for the industry's output.

Post-war conditions will emphasise these points. At the close of the fighting, industries will need to be equipped for peace at high speed. The desirable investment rate will be the maximum attainable with the existing labour supply in the engineering and other capital-equipment industries. There will in fact be an enormous tide of investment. This will be quite safe, however, if the Planning Authority can generate a similar tide of consuming power, to follow it with only a slight lag.

Certain wartime financial measures have been designed specifically to meet this need for a swift increase in consumption, and reference will be made to them in a later chapter. In this discussion of principles there remains for consideration the problem of judging the desirable rate of investment when the emergency period is over.

Once an industry has become modernised, the assessment of its capital needs for the ensuing ten years may be impossible to non-experts, but it certainly lies within the powers of the industry's own technicians, if they are given some basis for judging the volume of demand. It would be the Planning Authority's function to suggest the magnitude of the demand, and the technical experts could then report on the resulting call for capital expansion and renewal. In some industries a ten-year estimate might be based on figures of former

years : for instance, in the Post and Telegraph Service, Railways, Municipal Transport, Gas and Electricity, Banking, Insurance and the Food Industries. In others, where foreign competition adds uncertainty, the forecast would be less secure, though this would not seriously affect the estimates in Shipping, Shipbuilding, Iron and Steel, Textiles (except Cotton), Leather Industries and Chemicals. To these might be added firm estimates for investment in the land, if the Government were to purchase this national asset ; in roads, bridges, docks and waterways ; and in public amenities. A ten-year programme for the Building Industry, and for its capital expansion, may likewise be assumed.

In the whole range of national investment the only cause of serious error in estimating future needs, if the level of home demand be assumed, arises from the vagaries of international trade. This would affect the Coal and Cotton Industries most, and the Engineering and Motor Industries in some degree.

Error in making estimates does not necessarily destroy efficiency in the actual planning of investment. The sole purpose of the estimates will be to enable the Planning Authority to fix its " control points ". These " control points " may be revised from year to year in the light of experience. And the success of the planning will depend primarily on whether, having fixed the points determining the volume of investment, the Planning Authority can influence actual investment so that the chosen volume is realised. Even failure in this will not mean failure in the whole national plan if the Authority can make compensation through swift adjustments of consuming power.

The methods to be adopted for maintaining the approved volume of investment in the several industries will vary according to the structure of each industry. Nationalisation gives complete control, and this method might be extended to certain industries in which capital replacement is especially important. Suggestions are made to this effect in Part III. Municipal ownership or administration likewise gives virtually complete control. In other cases, the possibilities include subsidies of various kinds ; State purchase of machinery for re-sale to an industry on the hire-purchase system ; the acquisition by the State of capital equipment, such as ships, for lease to private companies ; and voluntary agreement with large firms for the adoption of

a planned rate of investment. These possibilities are explored at relevant points later, and in references to them in immediate general chapters they will be included in the term, *Special Schemes*.

### *Decision II. The Control of Prices*

The risk inherent in any attempt to expand "consuming power" is that it will both defeat itself and cause social injustice by producing inflation. The success of this method must therefore depend largely on the "stickiness" of prices. The greater the inertia of the price level, the longer is it safe to go on expanding consuming power with a view to absorbing more unemployed. And one of the most important parts of the national plan will be the multiplication of non-monetary measures for giving prices a certain fixity — for providing, as it were, a firm price ceiling beneath which consuming power can be vigorously expanded without risk of inflation.

One method for which there is a precedent is to enact a law under which neither prices nor wage rates may be raised above the level prevailing at the date of the enactment. Such a method could be of permanent value only if there were no increase in productive efficiency, or if such an increase were accompanied by either a fall of prices or progressively heavy taxation for expenditure on consumption goods. It worked in Germany before the war, apparently because taxation for war expenditure absorbed any increase in the margin between prices and wage costs.

(The same result might be attained in Great Britain by a combination of various processes. Recommendations given later in some detail include: (1) the continuance, after the war, of Government price control over all commodities which are scarce or enter largely into family budgets; (2) the extension of price control to peacetime industries, preferably through voluntary systems similar to the pre-war scheme for fixing maximum prices in Iron and Steel; (3) the development of international arrangements for fixing prices in unsheltered industries such as Coalmining; (4) the conclusion of a Gentlemen's Agreement — through a proposed Industrial and Economic Parliament — for the avoidance of any raising of prices after a zero date and for the adjustment of wages with due regard for the effect on prices. The purpose of this last measure would be partly to reinforce



the price-fixing scheme as a whole, and partly to cover any prices not controlled by other means. The Gentlemen's Agreement might be supplemented by the grading of substantially all commodities according to standard specifications, the appointment of an inspectorate under the Agreement, and the requirement that every retail article exhibited for sale should carry a price label.

To act as a final Court of Appeal in matters of price determination, a permanent Price-Fixing Board might suitably be set up by the Industrial and Economic Parliament.)

One chief item in costs, and hence in the structure of prices, is the rate of wages. Fair prices are scarcely possible without fair wages. Accordingly, it is recommended that the Price-Fixing Board should be the final authority in the fixing of wages. Workers and management would have equal representation on the Board, and it would be recognised as the ultimate court of reference in all disputes affecting in any way the level of wages and other costs.

Under such a scheme voluntary wage settlements would still be favoured, for conciliation is always preferable to arbitration except where conciliation implies a joint attempt by the two parties to exploit the public. But where the parties were unable to resolve their differences, it would be within the competence of either of them to refer the matter to the Price-Fixing Board. The findings of this body, representing all industry, would seem likely to prevail without any legal sanction.

To assist the Board in arriving at fair wage decisions, there might be prepared a "Wage Classification of Trades" indicating the rank of every trade for wage payment. This Classification would include all trades throughout the country and might be prepared by a committee composed largely, or even exclusively, of workers' representatives. In every organised industry the ranking of trades for wage payment is determined or endorsed by the workers' union. In a completely democratic, planned society, the same result would be desirable for the whole of industry; and the body most competent to decide the due grading of the various trades would seem to be one which most fully represented the people directly concerned.

*Decisions III and IV. Planning Consuming Power*

The third decision, under State-ownership, relates to the adjustment of wages, salaries and benefits so that the total of these shall be large enough to meet the total price of available consumption goods. Under free enterprise, the Government has no direct control over the wages and salaries paid by industry, and therefore cannot produce an exact copy of this decision. It can, however, achieve the same effect as is gained by the third and fourth decisions combined — the fourth being a decision to augment the supply of money to any necessary extent. The aim, in both systems, is to make sure that enough money is issued, and spent, to secure the absorption of all the consumption goods which can be produced during the year with existing labour and equipment.

Under private enterprise, the means of planning the supply of money and "consuming power" fall into three principal groups. The first, and chief, includes every device for issuing new money and directing it towards the purchase of consumption goods. The second, applicable when the total money supply is clearly adequate but is being used in such a way that consumption fails to keep pace with productive power, includes all measures for transferring money from savers to spenders. The third comprises methods designed to relieve men of the need or the desire to save.

*(a) Expanding the Money Supply*

It is a commonplace in economics that the banks are the only source of supply of money, and that there is only one way in which they can increase the supply. They do so by giving people the right to draw cheques on them. Cheques are, in fact, the chief form of money.

A bank confers this cheque-drawing right on a client whenever it grants him a loan against security or buys his security or asset outright. When the client, having deposited the security or sold it to the bank, draws a cheque, he may use the cheque for taking out notes, or he may pass on the cheque itself as money. If he passes on the cheque in payment for goods, the recipient may deposit it at his own bank, thereby establishing his right in turn to draw a cheque for the same amount. A continuing right is thus created, passing on from man to

man, to draw a cheque and, if need be, secure notes, up to the amount of the original loan or sale.

This right is cancelled by the opposite process. Whenever anyone who receives a cheque uses it for paying off an overdraft or for buying an asset from the bank, the title to draw a cheque lapses. No further cheque is handed on ; and the only way in which the bank can re-start the process of cheque circulation is by making another loan in place of the one cancelled, or by purchasing another asset.

The Government, under private enterprise, is in the same position as any other client. If it wants to put more money into circulation, its sole method is to secure the right to draw cheques.

This it can do in various ways. When the Government sells a Treasury bill to a bank, the Government can then draw cheques to the value of the bill. Or if a bank subscribes to a national loan, the Government can draw cheques to the value of the subscription. All such methods imply essentially the same thing, namely, that the Government *borrow*s from the banks and draws cheques for the amount borrowed. Thus, for all practical purposes, it is true to say that the one significant means<sup>1</sup> by which the Government can increase the circulation of money is to borrow from the banks and use its cheque-drawing right to pay its way.

At this point arises one of the fundamental difficulties of planning in a system of private enterprise. It is considered politically immoral, and in the end disastrous, for a peacetime Government to pay its way by borrowing. The test of a Government's probity is whether it can balance the Budget. Traditionally, every Administration has made it a point of honour, except during periods of war preparation, to gather enough tax revenue each year to meet all expenditure and leave something over for the Sinking Fund.

Under the Party System there are cogent grounds for preserving the tradition. Once the principle of the balanced Budget is lost, there is no safe anchor. If a Government is allowed to pay its way partly by borrowing from the Bank, where is the limit to be fixed ? For how many years can this be permitted ? What clear definition can be given

<sup>1</sup> Other less important means may be noted. When the Government is credited with the agreed profits of the Issue Department of the Bank of England, cheques to the amount of the credit can be drawn on the Bank. The sale of gold to the Bank by the Government — for example, from the Exchange Equalisation Fund — gives a similar cheque-drawing right. The proceeds of a capital tax may be used for the same purpose (see later, pp. 84-6).

to the new policy, such that the majority will understand it?<sup>1</sup>

The dilemma is very plain. Effective planning will inevitably at some time call for new issues of money. A Government worthy of the name is responsible for the plan. Yet the one substantial way in which it can fulfil the responsibility, and actively inject new money into circulation, is by itself borrowing from the banks. This is economically expedient. But it is not politically expedient. What is the solution?

The Government's soundest method of meeting the difficulty, if it is possible, is to make borrowing permissible by adopting the contrary policy, the creation of a reserve, in advance. Thus if, during a period of strong trade, more tax revenue is collected than is required for current expenditure, the surplus can be used provisionally for cancelling national debt, while nevertheless being regarded as a reserve. In other words, there will be an understanding that an amount equal to the reserve can be borrowed from the banks at any later time when it is necessary to expand the money supply.

But bad times may come before the good, and such a plan will not then avail. The remedy in this event is to add some special reinforcement to the political system. Obviously, that which is economically expedient must, by one means or another, be made politically expedient. The political system exists to serve, and a large part of the service is economic. If the system is so devised that the Government is sometimes unable to take sound economic action without becoming suspect, clearly the system must change. It will be destroyed by revolution if it does not undergo evolution.

Fundamentally, the reason why borrowing from the banks for current expenditure is not countenanced is that the Government is not trusted. The lack of trust is in no sense personal. The political system itself compels Governments to consider first what policy will secure votes; and because men know this, they assume that Governments will gladly seize any excuse to avoid taxing voters heavily. Recognition of the principle of borrowing at the Bank would provide the perfect excuse. It would be considered too dangerous. Given the existing political system, unmodified, there is no prospect whatever of the approval of such a principle.

<sup>1</sup> To nationalise the banks does not solve this particular problem; for if the Government were to pay its way partly by new issues from the nationalised banks, it would be escaping the alternative of taxing for revenue.

The political remedy would seem to be to introduce some new body, not dependent on public votes, nor subject to political fluctuations—a permanent, widely representative, authoritative organisation—to be responsible for initiating economic plans and endorsing Government policies. The need is for something of the nature of an Industrial and Economic Parliament comprising representatives of all branches of Industry, Commerce, Finance, the Professions and the Press. It would have advisory powers only, for there cannot be two sovereign controls in a State. But by reason of its representative character its recommendations would carry commanding weight.

Concerning the detailed functions of such a body more will be suggested during the discussion of politics in Chapter IX. At this stage it is necessary to note that if, at any time, it became clear that the national plan called for Government action to increase the supply of money, and thus to borrow from the banks, the sanction of a widely representative industrial and economic organisation such as is contemplated here should be enough to remove any suspicion of political spinelessness on the part of the Government.

Let it be supposed, then, that, in a time of need, the Government does in fact take steps to secure the issue of new money. The purpose of this action is not merely to draw the money into circulation. For, given sufficient incentive, private industry can do that itself. The aim is to turn the money into "consuming power". When industry borrows, the first and main purpose is to increase productive power. That may not be the most urgent need. In any event, industry will not borrow at all unless the final market gives reasonable promise. Thus the intervention of the Government is required primarily for strengthening the final market; and any new issue of money it procures should be put into circulation in such a way that it immediately promotes consumption.

This is easy. Substantially all the social expenditure of the Government is consumption expenditure. If the money borrowed from the banks is used, say, for family allowances, it will be spent almost wholly on consumption goods. If it is used for housing, holiday grants, block grants for the reduction of local rates, subsidies for travel, or the extension of any ordinary social service, the effect directly or indirectly will be to expend "consuming power".

Methods of borrowing money from the banks can be varied to suit

The political remedy would seem to be to introduce some new body, not dependent on public votes, not subject to political fluctuations — a permanent, widely representative, authoritative organisation — to be responsible for unifying economic plans and endorsing Government policies. The need is for something of the nature of an Industrial and Economic Parliament comprising representatives of all branches of industry, commerce, finance, the professions and the Press. It would have advisory powers only, for there cannot be two sovereign controls in a State. But by reason of its representative character its recommendations would carry commanding weight.

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Methods of borrowing money from the banks can be varied to suit

the occasion. At one extreme, when the Government is credited with the profits of an additional fiduciary note issue, the right to draw the profit involves no interest charge. Money borrowed through the sale of Treasury bills may sometimes be at a rate of less than one-half of one per cent. The current system of borrowing for war needs against Treasury deposit receipts costs 1½ per cent. Bank subscriptions to national loan may be at the rate of 2½ per cent. or more. Apart from such customary methods and Ways and Means advances, a scheme is suggested later for enabling the Government to borrow permanently from the clearing banks at a rate equal to the marginal cost of bank accommodation.

In fine, the Government can secure the issue of new money and convert it into consuming power by, in the first place, borrowing from the banks<sup>1</sup> in any traditional or other way, and then using the money for financing expenditure which will lead to greater consumption.

(b) *Taxation and Other Means of Transferring Income from Savers to*  
*Spenders*

"Consuming power", according to the definition given earlier, is expanded whenever the incomes of would-be consumers are augmented either by new issues of money, or by transfers of money from people who would otherwise try to save it. Each method has its appropriate time. The time for high taxation is when industry has recovered almost full-capacity production. Further large new issues of money at such a moment might place too great a strain on the arbitrary price structure; and if there were a break into inflation, the entire system of planning would be destroyed. Hence, if it is necessary to expand consuming power in order that consumption may keep pace with capital equipment, the best method, during a time of active trade, may be taxation.

The various means at present employed for transferring income from savers to spenders are matters of common knowledge: Death Duties, Surtax, Excess Profits Tax and, in some measure, Income Tax. A further impost to be considered is one on Capital.

A Capital Tax is the logical counterpart of the method of borrowing. This emphasis on the use of banks as the source of loans implies no intention to exclude the possibility of State borrowing from the public. It is when the Government intends especially to enlarge the supply of money that it has recourse to the banks. On other occasions public borrowing may be preferable (see the next chapter, pp 88-90).

from banks at other periods for expanding the supply of money. Borrowing increases the national debt; a Capital Tax cancels the debt or, alternatively, provides a reserve for future borrowing. The special virtue of a Capital Tax, however, from the point of view of maintaining consumption, is that it tends to reduce the taxpayer's personal consumption much less than do taxes on income. In other words, a tax laid on capital as an exceptional toll will not cause the taxpayer to reduce his personal spending as much as would an income tax yielding the same revenue spread over a period of years. This will be especially true if the capital tax coincides with a time of rising security prices and dividends.

Apart from its main object of providing funds for the immediate increase of consuming power, the purpose of a Capital Tax might include: the financing of Special Schemes for reducing local unemployment; the cancellation of national debt; the creation of a reserve fund for justifying a subsequent policy of bank-borrowing. The foregoing methods of increasing consuming power through new supplies of money or through taxation are capable of extension to any required degree. They involve no technical problem. But, as was seen, they raise a considerable political problem. And whenever taxation is a needful instrument there enter psychological issues on which the fate of civilisation itself depends. These cannot be discussed at this stage. They are noted because it is highly relevant to observe in passing where the real difficulties lie.

### *The Rate of Interest*

Another conceivable method of swelling consumers' incomes at the expense of savers is to press down the rate of interest.

Capital and labour are in joint demand. When the price secured by one, in the form of interest, declines, the other may be able to raise its price, in the form of wages, if its services are indispensable.

Owing to the substitution of capital for labour there can be no final assurance that a fall in the rate of interest will benefit labour at the expense of capital and lead to greater consumption. But whether this result is gained or not, there are other strong grounds for keeping the rate of interest low. It will at least speed up the production of capital equipment; and it does not increase consuming power at the same rate, there are other fully adequate methods of achieving this.



*Inducement to Consume Less and Spend More*

There remain for mention various plans whereby the Government might induce individuals to devote a larger part of their incomes to consumption. The higher the attained standard of life, the easier it becomes to save; and as a country grows richer its people attempt to set aside an increasing proportion of their incomes for emergency and old age. In this they are bound to fail, since the country's total savings are measured by the value of its capital equipment and durable goods; and the value of the capital equipment—the chief item—depends on the demand for what the equipment will produce. The attempt to economise destroys demand. It narrows the outlet for goods and chokes the system. Any method of persuading the people to spend more will clear the outlets, release and revive the system, and end by enabling the people to save more!

Schemes of insurance against unemployment, sickness and accident, retirement pensions, free holidays and rest homes and all similar provision which deepens the sense of security, must have the desired effect. Further beneficial results would come from enlarging the scope of employment for women and training all to be self-supporting. Perhaps the most effective measure would be a Government compulsory scheme of insurance for married men, providing either a retirement pension for the man or, in the event of his death, a comparable pension for his widow. If the scheme were to embrace all married men with incomes up to £5,000, the contributions and pensions being proportionate to the income, it would probably obviate much saving. Moreover, once the scheme was fully established, premiums paid to the Government would be approximately balanced by outgoing benefits, the greater part of which would be spent. And in a State scheme there would be no need to place large sums to reserve.

*Summary*

The translation of the above outline into terms of a practical programme for adoption by a Government will be left to Chapters VII and VIII. Here, in conclusion, certain salient general principles of planning in a system of free enterprise may be shortly rehearsed.

(1) The outstanding need, in a competitive system, is to develop a new and truly potent method whereby the Government can get an effective purchase on the system and control its activity.

A competent control can be evolved, it seems, through the development of various Government methods of expanding "consuming power".

The chief methods are : to secure the issue of new money and direct it into use for consumption ; and to divert money through taxation from intended saving to consumption.

These methods can be developed to any degree desired in order to ensure that consuming power shall keep pace with the capacity to produce. The limitations are not mainly technical, but political and moral.

When increased consuming power draws forth more goods from industry it tends to expand employment ; and the process of expansion may be safely continued until scarcity appears in parts of industry, threatening to provoke a rise of prices.

(2) At that point this method of planned expansion must cease unless some highly efficient means can be devised for stopping the further rise of individual prices. Such means must be non-monetary. Thus private industry might reinforce the system of planning in a unique way by itself undertaking to assist the fixing of an upper limit to prices. The more rigorously prices are held through public and private control, the more persistently can the Government continue adding to consuming power, and the more fully will this in turn lead to increased turnover and employment. Indeed, it is theoretically possible for the Government to generate such a demand for consumption goods, if there is a firm price ceiling, that scarcity will arise even when industry is working to full capacity.

This dual arrangement of vigorously swelling the volume of consuming power against the resistance of a fixed upper limit to prices would seem to be an indispensable part of any truly resolute, aggressive system of planning under private enterprise.

(3) To round off such a plan, it will be necessary to launch a series of Special Schemes designed to drain away any pools of unemployment which remain despite the general expansion of consuming power. Furthermore, Special Schemes for planning investment in selected industries, to reduce fluctuations in the country's aggregate investment, will make smooth the planning system as a whole.

Whereas in a system of State-ownership the national plan is built

on a framework of four main features, under Private Enterprise the measures may more conveniently be grouped under three. All parts of the plan fall within the following categories : the expansion of consuming power ; the fixing of a firm upper limit to prices ; and special schemes for absorbing local unemployed and for regulating investment. This threefold structure underlies all proposals emerging from the present enquiry.

In order to translate the theoretical framework of a national plan into a precise Government programme it is necessary to decide in advance how drastic the Government's action will need to be. Economic conditions from 1900 to 1914 show clearly that a competitive system may remain highly active for many years without any intervention whatever by the Government. But a study of the later period, 1920 to 1939, leaves the strong conviction that when the system does fail it needs most forceful treatment to make it go. The system is a slippery thing, somewhat like a large pool of mercury. To make it move seems to require a persistent, broad, adroit pressure in one direction.

In concrete terms, a community which adopts one idea and drives it powerfully and unremittingly is more likely to attain its end than another community which is favoured only with the most profoundly skilled financiers. For instance, a nation which declares, "We will go on and on without let or limit inventing jobs to fit every man till we have placed the last man in a job, and find the money later", is likely to arrive at a considerable result. Another which goes on expanding consuming power by every device it can conceive is equally likely to arrive if, once more, it can effectively peg prices. And, to take a Keynesian thought, it is difficult to see why, if banks were to go on indefinitely buying blocks of securities in the open market, they could not force security prices to such a height and the rate of interest to such a depth that a boom in capital investment would inevitably in the end result; and why, if this led to reaction, the same policy should not be repeated and intensified.

The sound idea which is most able to capture the imagination is for all practical purposes the best. Hence no special brief is held here for one point of departure more than another. In the end every national scheme must give the same result; and whatever the beginning, all

1 That there are difficulties confronting this method, Keynes himself amply demonstrates (*General Theory*, ch. xiii); and its ultimate success appears to depend on whether the reduction of the rate of interest will itself lead to an adequate increase of consuming power by permitting a rise in wages. (See comment on Keynes's theory at the end of this chapter.)

schemes will tend to develop the same type of structure. The sole virtue claimed for the scheme put forward here is that it does surround the mercury. It proposes pressure at several points at once, and if the pressure is effective at each point the mercury will move where needed. However, the scheme raises certain controversial questions, some of which could not be examined without loss of flow in the chapter above; and the object of this addendum is chiefly to take up such questions.

### *The Fixing of Prices*

It is sometimes contended that, when money incomes are expanding, prices will tend to rise, and that if some prices are arbitrarily fixed, others will rise all the more; for consumers will find themselves with a larger share of their incomes left for buying the uncontrolled goods. This may be true when the upswing of prices has gained momentum; but it is by no means a general truth. The assumption that it is appears to be based on a false deduction from the quantity theory of money. This theory does *not* state that an increase in the quantity of money will lead to an increase of prices. Under conditions of diminishing cost it may lead to a fall. What the theory does state is that, when there is an increase in the quantity of money multiplied by its rate of circulation, an exactly equivalent change takes place in the quantity of goods bought with the money, multiplied by the average price of the goods. Thus the results which may follow from enlarging the money supply are various: (1) a fall in the average price, coupled with a very substantial increase in the output sold; (2) no change in the average price, coupled with a less extensive increase in the quantity sold; (3) a rise in prices, and a still less marked increase in sales; and (4) a sharp rise in prices and no change in sales.

Once it is admitted that prices do not necessarily rise in response to an increase in money incomes, it is seen that the fixing of certain key prices is likely to assist general price stability. In the first place, the prices of one group of producers are the costs of another, and stability spreads from the one group to the other. Further, if the fixed prices are those which mainly enter into the cost of living, as is probable, the need for raising wages is lessened. And finally, the psychology of business is such that price movements and price stability are infectious. When certain basic products are showing an upward trend in price,

the feeling spreads among all producers that their turn to announce a rise is becoming due, while the resistance of consumers to a rise has been broken already. When, however, basic prices are fixed, consumers may react against any unjustified raising of particular prices, and producers will lack an obvious excuse for demanding an advance. It is thus evident that the Government itself can do much towards the stabilising of prices by non-monetary means. By spreading a firm control over the prices of certain main articles of food, clothing, heat and light, and over rents and transport charges, while fixing an upper limit to the prices of coal and steel, the Government could erect a fairly solid barrier to the rise of prices in general, at least until such time as a scarcity of goods began to be felt.

Nevertheless, it is at this point that the co-operation of private industry is most valuable and, indeed, seemingly. After all, under private enterprise, it is industry that fixes prices. Except when the Government intervenes, business men can do what they corporately wish in the matter of controlling prices. And if they agree that it would be good to expand consuming power vigorously under the safeguard of an arbitrarily fixed price level, they can provide that safeguard. The method, as suggested, is through employers' agreements to avoid price changes. There are few industries in which price-control schemes have not at some time been adopted. The levels fixed have almost always, it is true, been *minimum* prices. But all that is necessary to yield the desired price ceiling is to make such schemes general and regard the prices fixed as *maxima*.

There remains the problem of industries in which prime costs rise steeply when the firms are approaching full-capacity production. Often the cause of the rise is the inefficiency of the last 10 per cent. of the labour employed. A point is reached in the expansion of output when, unless the price can be raised, it is not profitable to engage more men. The remedy does not seem to be to raise prices, for that would introduce a dangerous and contagious exception. One of three other policies would be possible: to train more men of fair talent and transfer them to the industry; to subsidise the industry in respect of the last 10 per cent. of its output; or to leave the industry working below capacity while absorbing the inefficient labour into specially devised Government-promoted schemes.

It may be noted that the prices would be fixed in the first place at "prosperity levels" and would allow most industries to give very full employment.

### *Consuming Power*

If the expansion of "consuming power" is to be made the Government's chief means of control in planning, it should be said emphatically that the remedy may have to be applied in very large and obvious doses. When a nation is producing at 20 per cent. below capacity, an increase in consuming power up to 25 per cent. may be necessary to set all hands to work. In money terms, an increase of incomes of the order of £1500 million pounds per annum may be required. If the Government accepts responsibility for generating only half that amount, leaving the rest to the joint action of industry and the banks, the Government's new borrowing from the banks or from the public will be on a scale unprecedented except in wartime. It could not be attempted by any semi-concealed device, but will be exposed to the world's full gaze.

As noted, finance by borrowing in peacetime is held to be politically immoral. By current standards borrowing for expenditure on *consumption* would be regarded as the uttermost depth of immorality. Since the method is economically sound in a time of depression and is adopted as a matter of course in a system of State-ownership, it may be well to indicate various ways in which a new and more realistic morality may be evolved.

It would seem wise to begin by having two separate national Budgets. The first would be a Budget for current, established, annual revenue and expenditure. It would follow the lines of the traditional peacetime Budget, while excluding certain items about to be mentioned. It would be balanced yearly.

The second Budget would include the following items: capital expenditure; taxes on capital; the Sinking Fund and National Debt; expenditure financed by borrowing from the public or from the banks; emergency expenditure designed for increasing consuming power; emergency taxation designed for increasing consuming power or for establishing a reserve.

The first might be called the "Current Budget": the second the "Planned Budget". The first would be exclusively the affair of the

Treasury and other Departments, as is the present Budget. The second would be the main business of the Planning Authority, the advisory part of which would be, according to the suggestions above, an Industrial and Economic Parliament.

This Industrial and Economic Parliament would in any event evolve a policy bearing on each item in the Planned Budget and would give the Government the benefit of its findings. In particular it would submit recommendations concerning Bank-borrowing for the increase of consuming power.

The amount of the borrowing, it has been seen, would need to be very substantial to make any impression on a slump such, for instance, as Great Britain suffered after 1920 and 1929. The schemes of expenditure would thus have to be correspondingly substantial. Now, lavish expenditure during a depression is, strangely, also considered immoral. The more "honest" an Administration under the leadership of the Chancellor, the more certain is it to make a depression worse by bringing down the economy axe, as, for example, was done in 1932. Hence there is the problem of presenting the new vast expenditure in such a light that it will be acceptable even in depression. The problem is not made easier by the fact that the expenditure must be on consumption.

Fortunately, much public consumption is of the nature of investment. Houses, parks, roads and schools are consumption goods, inasmuch as they yield directly the consumption values required from them. They are not capital equipment. To increase the supply of them does not mean increasing the future supply of yet other goods which must somehow be forced upon the market. Yet although they are consumption goods, they are also durable assets and, as such, they justify the investment of capital.

It appears less shocking to borrow money for expenditure on investment goods than on goods for immediate consumption. Thus when new money is borrowed from the banks for increasing consumption of power, a high proportion of it may be allocated to the creation of durable assets. Moreover, if the rate of interest on the loans is slight, the method will be the more acceptable.

It may be mentioned that the Government has for many years borrowed money on behalf of those Local Authorities which have been unable to borrow cheaply themselves. The Local Loans Fund



developed for this purpose might be expanded to cover sums borrowed for local expenditure under the Planned Budget, and the money might be drawn at least partly from the banks

As regards special expenditure on consumption goods and services which are *not* durable — school meals, family endowment and holiday grants, for instance — although the additional cost involved would fall primarily on the Planned Budget, some part of it might be transferred to the Current Budget as industry expanded and ordinary tax revenue flowed more freely into the Exchequer

In general, however, the evolution of new traditions of political morality conforming to the economic good must depend largely on widespread education. The notion that it is sinful for Governments to borrow from the banks for current expenditure is, on any economic view, fantastic. Business firms adopt this procedure as a regular practice. Indeed, if they failed to borrow, there would be little money in existence. It is when they borrow that cheques are born. If the Government is to play its due part in the issue and circulation of money, inevitably it must be allowed to adapt its policy to this cheque-producing process. One relevant method is to borrow. And it is fundamentally important that voters in general, and all people directly concerned with government and planning in particular, should grasp this truth

### *A Capital Tax*

In the foregoing chapter a Capital Tax was recommended for various special purposes including the cancellation of National Debt and the creation of a reserve for maintaining consumption. When such a tax is used, on the one hand, for paying off internal debt, it implies a transfer of money from one capital-owning group to another. The two groups may, to a large extent, include the same people. On the other hand, when the tax revenue is used to create a reserve for maintaining future consumption, it appears to imply a possible future transfer of money from the capital owning group to consumers in general, and there may be little overlap between these two groups. It will be helpful to enquire into the ultimate effects of the transfer in each case

Where the intention is to use the proceeds of the Capital Tax for reducing internal debt, it is evident that the tax could be so devised

that nobody would substantially gain or lose. After the tax revenue had been used for cancelling debt, the Government would no longer need either to meet interest on the cancelled stock or to provide such a large Sinking Fund as before. Hence it could relieve the community of some taxation. It could, in fact, relieve precisely those citizens who had contributed to the tax. By reducing surtax it might leave them with much the same tax-free income as before.<sup>1</sup>

If the proceeds of a Capital Tax are used for *increasing consumption*, it appears that money is taken from owners of capital and spent in the interest of consumers. There thus seems to be a substantial loss to one group and a gain to another. Yet, in contradiction of this, it is maintained that the actual capital assets — the factories, machinery, houses and land on which the tax has been levied — do not pass into the possession of consumers. Neither are they retained by the Government. Furthermore, it is clear that, if the new consumption has enlarged the market for the product of the capital equipment, the value of that equipment will be not less but greater. Who, then, loses by this general manoeuvre? What precisely happens?

The Capital Tax may be met by the taxpayers partly with money on deposit at the bank, partly by the surrender of Government stock, partly by the surrender of gilt-edged securities to be accepted by the Government at stated prices, and partly by the sale of other securities or assets by the taxpayers themselves.

The first method, payment by cheque drawn against a bank deposit, implies a transfer of purchasing power from the taxpayer via the Government to the consumer. It is a transfer of money capital, but not of material capital.

The second and third methods involve the surrender of stocks and shares to the Government, but these are of no value to it for increasing consumption until they have been sold for cash. Under the fourth method the taxpayers themselves sell assets for cash. The question arises then : Who buys the securities and assets ?

<sup>1</sup> This method of compensating Capital Tax payers by later reducing the surtax rate could not be adjusted to make very accurate compensation, since the annual relief would vary in relation to income, whereas income may not be proportionate to capital owned nor to the contribution to the Capital Tax. Other methods might be devised to give more accurate compensation. For instance, in return for a contribution to the tax, the contributor might receive a lifetime annuity in the form of tax relief, the annuity having a present value equal to the contribution. (The annuitant would be smaller than those provided by ordinary insurance, since they would include only net interest, i.e. interest less surtax and income tax.)

If the bank deposits of private savers have been largely absorbed by the first method, the securities and assets cannot for the most part be sold to private buyers. There remains only the banking system as buyer. The banks may create new money either for purchasing the assets themselves or for lending to private purchasers.

All the new money is passed on to the Government for expenditure. Thus a Capital Tax employed for increasing consumption is essentially a means of mobilising Bank money, or of creating new Bank money, and drawing it into active circulation for Government-promoted consumption.

To give an account of all the changes in ownership which take place as a result of a tax used for such a purpose would lead to ever-increasing detail. Some of the first changes are these: whether the tax is paid by means of assets sold to the banks or by loans from the banks on the security of assets deposited, the effect is (a) to give the banks a claim on the assets thus impounded for the purpose of the tax, and (b) to give the Government a claim on the assets of the banks equal to the tax revenue. When the Government draws cheques or notes and passes them on to consumers, it thereby transfers to them the claim on the assets of the banks. (All money is a claim on the assets of the banks.) The consumers then pass on their claims to producers. Producers may pass them further to consumers and to other producers. But they may use a part of this new inflow of claims for buying back from the banks some of the assets impounded by the tax.

In sum, producers will gain by the enlarged flow of money. Some transfer of ownership may take place, as a result, from people who are purely owners of capital to people who are active producers. Further, the banks may gain through the expansion of their operations. For the rest, because the volume of money in circulation increases and because this means an increase in the claims of the community on the assets of the banks, there is an increase in "floating ownership", i.e. the ownership represented by the possession of cash.

It is evident from the above that a Capital Tax can be used for generating an inflationary tendency. As a mechanism for creating money and pressing it into circulation it is most powerful. Moreover, the inflationary effect can be held in reserve for application at any suitable moment by the simple expedient of imposing the tax in one

period and retaining the proceeds for use in another. The tax may be levied during a boom and the assets thereby secured may be held on Government account till the risk of trade reaction is imminent. As soon as prices begin to fall and a counteracting influence is desired, the assets may be sold to the banks or used as security for Government loans; and cheques may then be drawn for stimulating consumption.

A deflationary effect can also be obtained by the same kind of tax if the proceeds are used, not for consumption, but for paying off the Government's existing debt to the banks.

A Capital Tax thus lends itself to any effect desired at any moment. It can be made inflationary, deflationary or neutral in total effect; or it may be made deflationary in the process of collection and inflationary in the process of expenditure.

### *Choice of Methods of Expanding Consuming Power*

The two cardinal methods of enhancing the people's capacity to consume have been typified by Bank-borrowing for Government expenditure on the one hand, and by a Capital Tax, the proceeds being applied to consumption, on the other. These methods differ at least in one important respect: Bank-borrowing adds to the National Debt; a Capital Tax does not. It follows that they may not be equally desirable. Which method, it must therefore be asked, is preferable in the various situations likely to arise in the future?

As an immediate, practical answer covering the first four years of peace, it seems reasonable to suggest, first, that the method of finance by Bank-borrowing should be used immediately after the Armistice; secondly, that a Capital Tax would be desirable as soon as the replacement boom is strongly under way, say, in the second financial year after the war; thirdly, that part of the proceeds of the Capital Tax should be marked as a reserve for the expansion of consuming power at the close of the period of replacement.

After three years, however, there should be no supposition of boom or reaction, for that would imply in advance the failure of the planning system; hence there can be no assumed cyclical phase to which one method or the other could be considered appropriate. The national plan would involve the continuous expansion of consuming power month by month to keep pace with a steadily growing output

of consumption goods. And it would still be necessary to decide how the consuming power should be generated by Bank borrowing or by a further Capital Tax.

Purely from the point of view of maintaining "full employment", it makes no difference which method is used. In essence, the aim is to increase the volume or activity of money and make sure that more money is spent at the consumption end of industry. If the means employed is a Capital Tax, Bank money is newly created in the way noted earlier and is applied forthwith to consumption. If the method of Bank borrowing is used, precisely the same effect is gained.

There may be certain psychological effects depending on public attitudes. One method can be labelled "inflation", the other "pro-fligate finance". Both give perfect openings for inventors of Election scares. Indeed it would be difficult to judge between them from the point of view of their liability to be caricatured.

However, if politically and publicly accepted, either method would serve well and could be employed progressively to raise consuming power to any approved level. The choice would not depend on their relative ability to generate employment, it would be governed mainly by the decision whether a rising or a falling National Debt was to be preferred.

The advantage of a large National Debt is that it provides a great reservoir of fixed interest capital in which people of small means can invest for security. This consideration loses some of its weight if the Government either lessens the need for personal savings by pension schemes, or it provides alternative forms of safe investment by guaranteeing interest on controlled enterprises. It loses still more weight if the Government's aim is to increase its ownership of the country's capital in order to secure a more equal distribution of income throughout the community. In these conditions a Capital Tax becomes the evident means both for transferring capital to the State and for enlarging consumption.

Moreover there is a certain disadvantage in increasing the National Debt year by year, inasmuch as there may come a time when some Government decides to reverse the process in the interests of 'honest finance'. And it may achieve this through widespread taxation having a catastrophic effect on consumption. The Government's wisest policy, since it cannot bind a successor, will be to adopt some financial

system which all later Governments will probably comprehend and accept

A fairly safe solution, applicable after the third year of peace, would be to adopt the method of Bank-borrowing *only for expenditure on consumption-uninvestment goods*, that is, on consumption goods which are durable assets — roads, building, recreation grounds and the like. This would increase consuming power directly and indirectly, but probably not enough. For the rest, it would be sound to raise the volume of consuming power by enlarged social benefits and personal incomes, to be financed by a Capital Tax, death duties or similar imposts having little effect on the taxpayers' consumption.

### *Public Loans*

There remains for consideration the possibility of State borrowing from the public, rather than from the banks, with a view to raising consuming power. A public loan may be almost as effective a means spent for the same consumption as a Bank advance, because (a) the loan is from the banks in order to lead to the public may borrow that savings are used, the loan will imply the application of money savings to consumption, and (d) in any event the rate of use of money will be increased through the loan.

The explanation why public borrowing has not been emphasised here involves a short argument. If the Government is required to expand consuming power by, say, £500 million in a given year, it obviously must not borrow the whole of that amount from the banks. To draw into circulation an additional £500 million would cause a much greater increase in consumption several times in the year. Only a part of the summing power would therefore be created directly by Bank-borrowing. The rest would be generated by some process of transfer from the loans increase the National Debt. There can be no objection, however, to the use of public loans for expenditure on consumption-investment goods, especially when it becomes evident that Bank loans should not be used further for this purpose. Bank loans to the Government will be cheaper than public loans, and in any event will be used to the full.

extent required for expanding the money supply; but thereafter public loans may suitably be employed for consumption-investment.

No formula is possible showing the *exact* proportions in which Bank-borrowing, public borrowing and taxation should be employed. In wartime the Treasury is compelled to borrow from the Clearing Banks, as well as from the public, and its action is never governed by rule of thumb. Bank-borrowing fills the gap between total State expenditure and the aggregate of public borrowing and taxation; but care is taken that the gap does not grow too wide, lest inflation should result. In peacetime, Bank-borrowing will similarly be limited according to the observed effects on the price structure. The chief guide to action will be the reports of price inspectors, a large increase in price evasion being the signal that the pressure of consuming power and money supply is becoming excessive.

It may be noted that so long as the price structure remains firm, automatic adjustments take place within the economic system if one method of expanding consuming power is pressed into service more than another. For instance, if the State uses capital taxation as its chief method of maintaining consuming power, and has little recourse to the Clearing Banks, business firms whose turnover is increased by the greater consuming power will need to borrow more from the banks; hence they, in place of the Government, will be largely responsible for increasing the money supply. Likewise, if the State uses public loans extensively instead of Bank loans, the public will borrow more from the banks, thereby enlarging the money supply. If, in contrast to these methods, the Government uses Bank loans extensively — this being part of a general scheme for enlarging the credit basis of industry — the rate of interest will fall, the return to capital will be less, and a change in the distribution of income will take place affecting the ownership class in the same direction as would a Capital Tax.

Certain general conclusions are thus underlined. Provided that prices remain fixed, it does not matter much, from the point of view of attaining the goal of full employment, which method of raising consuming power is emphasised. In determining the method, or in judging the proportions in which the methods are to be used, the Government has much latitude, and can be guided by expediency of a political or other kind. The suggested broad rules are: (a) for purposes of increased current consumption, to use capital taxation;

(b) for purposes of consumption-investment, to use Bank loans whenever there is any occasion for expanding the money supply, and at other times to use public loans.

If the price structure shows signs of being disrupted, pressure on all fronts and by all methods must be diminished.

### KEYNES'S THEORY AND PROPOSALS

There appear to be two main "financial" approaches to economic planning. One is to increase the people's capacity to consume, by enlarging the money supply and directing it into the hands of consumers. The other is to plan and expand investment. In *The General Theory of Employment, Interest and Money* Lord Keynes seems to emphasise the second method, though he regards the first as a significant and necessary accompaniment to it. The chief finding, as regards unemployment, is summarised early in the book:

When employment increases, aggregate real income is increased. The psychology of the community is such that when aggregate real income is increased aggregate consumption is increased, but not by so much as income. Hence employers would make a loss if the whole of the increased employment were to be devoted to satisfying the increased demand for immediate consumption. Thus, to justify any given amount of employment there must be an amount of current investment sufficient to absorb the excess of total output over what the community chooses to consume when employment is at the given level. For unless there is this amount of investment, the receipts of the entrepreneurs will be less than is required to induce them to offer the given amount of employment. It follows, therefore, that, given what we shall call the community's propensity to consume, the equilibrium level of employment, i.e. the level at which there is no inducement to employers as a whole either to expand or to contract employment, will depend on the amount of current investment. The amount of current investment will depend, in turn, on what we shall call the inducement to invest; and the inducement to invest will be found to depend on the relation between the schedule of the marginal efficiency of capital and the complex of rates of interest on loans of various maturities and risks.

Throughout the book this theme is developed. Investment is regarded as the means of generating employment when consumption lags.



"The community's total demand, Keynes adds later, is composed of two elements — the demand for consumption goods and the demand for investment goods — and when the demand for consumption goods does not keep pace with the community's growing income and productive capacity, unemployment will result unless the demand for investment goods is expanded to fill the widening gap. The nature of the measures proposed for increasing investment may be derived from certain notes on the Trade Cycle in the *General Theory* and from those parts of the Macmillan Report which bear most clearly the marks of Keynes's authorship. The various methods seem to fall under three headings: (1) the direct social control of investment; (2) the reduction of the rate of interest; and (3) the strengthening of business confidence so that the schedule of the "marginal efficiency of capital", by which is meant a certain anticipated return to capital, shall not fluctuate violently. Of these three methods it is proposed to consider only the first, for full agreement is felt with the second and third, and they do not seem to raise any question of balance of emphasis.

### *Social Control of Investment*

The proposals in Addendum I of the Macmillan Report contain the following suggestions for planned investment by the State: 1

(1) A considerable part of the larger towns and industrial centres of the country need rebuilding and replanning on a comprehensive scale. At present they offer neither beauty nor convenience nor health. Much of the industrial housing of the country is of an age when buildings of that character are, of necessity, only fit to be demolished. It seems an insanity to keep a large proportion of the building trade out of employment when this is the case.

(2) Some of our staple industries need to be refitted and replanned on modern lines, at the cost of a substantial capital expenditure. In several cases, there is much to be said for replanning an industry as a whole. Apart from tariffs, and the like, we see no reason why our staple industries should wait before putting their house in order. In cases of proved necessity, we should not be opposed to measures of compulsion, in conjunction with the provision of adequate and cheap finance. It may be that we should develop an improved organisation for handling all matters of this kind. It would be outside our scope to pursue this subject in detail. But we think that efficiency by six members of the Committee on Finance and Industry, 1931, pp. 107, 108. Addendum I is signed

and forethought might be much increased if a body were to be set up which might be designated the Board of National Investment, in the hands of which all matters relating to the deliberate guidance of schemes of long-term national investment would be concentrated. This Board might be entrusted with the duty of raising funds not only for the local authorities which now borrow through the Local Loans Fund but also for other local authorities including municipalities, for the telephones, for the roads and for such further schemes of national development as those which we have suggested above. But this is a big subject and it would lead us too far afield to develop it as it deserves.

(III) The recommendations of the recent Committee on the Electrification of the Railway System obviously deserve the most careful consideration in this connection.

Whether Lord Keynes initiated these proposals or not, they undoubtedly illustrate his main theme, namely, that special institutions should be established for promoting investment. With this main purpose it would seem difficult to disagree. And the Board of National Investment, with its primary function of encouraging capital development having a recognised social value, would become a most useful adjunct to the planning system if it were armed with the necessary powers.

The main practical issue raised by Keynes's *General Theory* is whether, under Private Enterprise, planning can be made effective solely through the regulation of investment. The belief that it can may appear to be implicit in certain statements in the book, and in the special emphasis given throughout to factors affecting the volume of investment. Yet to read such a conclusion into the book would be, it is felt, altogether mistaken. Keynes explicitly states (p. 321), "Whilst aiming at a socially controlled rate of investment . . . I should support at the same time all sorts of policies for increasing the propensity to consume". And in the paragraph following this statement he gives an illustration indicating the *proportion* by which it might be necessary to expand consumption in order to justify an increase in investment. Moreover, Keynes's recent plan for deferred pay or credits from wartime taxation is most ingeniously devised to regulate consumption both during the war and after. There can be no doubt that in practical policy he ranks the control of consumption as equal in significance to the control of investment.

Thus the main comment which it is desired to make on the *General*

*Theory* is that whoever derives from it the finding that by investment planning alone unemployment can be remedied is misinterpreting the author, and is emphatically misled. A remedy consisting solely of investment can never be more than temporary. For if, on the one hand, the investment is in new productive equipment — factories, machinery, materials and the like — the long-run effect is still further to increase the community's income and output, and the consequent lag in consumption. The filling of the "gap" ends by widening it. If, on the other hand, the investment is in non-productive durable goods, such as houses, it is true that a safer long-run result is gained, since the new investment does not itself yield a further endless stream of goods which must be marketed. But the limit to this method is soon reached. Once the shortage of houses has been made good, the scope for investment in non-productive capital steadily diminishes. Certainly it does not provide a means for the permanent re-employment of hundreds of thousands of rejected workers.

The alternative is to fill the "gap" from both ends at once; to expand investment and at the same time refuse to let consumption fall. Methods of enlarging aggregate consumption are virtually without limit once the political difficulties have been overcome.

The problem cannot truly be set in terms of, "Either . . . or . . . ." Sound planning as a rule demands the regulation of both factors, investment and consumption, at the same time and in due proportion. And although it may not be possible to determine the "due proportion" precisely, an estimate can be made which will meet all practical needs.

The considerations affecting this estimate may be shown with the aid of a certain classification of goods. For purposes of planning, goods may conveniently be divided into three groups. There are, first, "consumption goods", like strawberries or sandbags, here to-day and gone to-morrow, their main characteristic for planning being that once sold they can no longer glut the market. The production and sale of consumption goods cures present unemployment without heap[ing] up difficulties for the future. One reason why war is good for employment is that things produced are blown to fragments.

The second main group may be described as "consumption-investment goods". It includes all things durable, such as buildings, estates or recreation grounds, private vehicles or water craft, in so far

as they provide a means of investing savings, and are not used for industry. The interest of this group for planning is that it absorbs savings without leading to the production of more goods in the future. All durable goods yield, of course, a continuing service; and for this service a consumer must always be found. But the initial purchaser undertakes to be the consumer permanently, or until he can find another willing buyer.

The third category is "capital equipment", under which are included all investment goods used in industry for producing yet more goods. The total amount of capital equipment required by industry bears a relationship to the total output of goods of all kinds: a relationship which, though not fixed, is too close to be ignored. The need for such new equipment is a function of three things: (1) the total output of all consumption goods and services and consumption-investment goods (the capital equipment used in making such goods being itself produced by a succession of lesser amounts of equipment); (2) the efficiency of the capital equipment, old and new; and (3) the rate of replacement, through depreciation and obsolescence, of equipment already installed. The second and third of these factors are somewhat arbitrary and indeterminate. Efficiency, in the case of capital instruments, depends partly on how they are handled and used. And rates of obsolescence and depreciation vary according to the differing standards of the countries, industries or firms concerned.

In spite of all arbitrary factors there remains a certain organic connection between the total need for capital equipment and the total output of all kinds of goods. It is of the utmost importance in planning, therefore, to determine the output of new capital equipment by reference to the volume of all goods which the community can be induced and enabled to consume.

The general thought to which this leads is that if there emerges a "gap" owing to the failure of consumption, the method of filling the gap would be partly by investment, partly by permanent increases in consuming power, both factors being advanced by a steady rise, and being consciously related to each other through the medium of a plan. With this conclusion Keynes no doubt wholly agrees, and apologises may be due to him for repeating what he has more competently said. No other means seemed available for paying a regard which is manifestly due.

*The Post-War Problem: I*

THE economic setting of the post-war problem can be forecast with a high degree of certainty. The one unknown factor will be the Government's own policy. It is true that the exact degree of development of the various economic conditions cannot be foretold; but little doubt can exist as to their general nature. They will include: the devastation of property at home and abroad; destruction of ships and other means of transport, coupled with a great increase in replacement capacity; inflated prices; an enormous and still mounting National Debt; over-expanded war industries; disorganised peace industries; depreciated capital, calling for extensive replacement; millions of discharged men and women seeking new occupation; and heavy Government commitments in respect of war gratuities, pensions and the restoration of property occupied by the Services and Government Departments. When confronted by these conditions, the Government may adopt different policies with different results. Nevertheless the conditions themselves are clearly predictable and provide a reasonable basis for prophecy. It seems justifiable to suggest that after the war the problem confronting the Government will unfold itself in five fairly distinct phases.<sup>1</sup>

(1) The first of these, following immediately upon the Armistice, will be one of actual or threatened depression. The transition from wartime to peacetime economy cannot be expected to take place with machine-like smoothness. Munitions work will cease abruptly. In its place will come in due course a national programme of reconstruction. But the two activities are unlike, involving different aptitudes, equipment and trades. In the interval between the cessation of war work and the full growth of the plan of reconstruction, there may be some breakdown of trade. The extent of this will depend largely on the preparedness of the Government.

<sup>1</sup> The continuance of war in the Pacific after the Western war has ended may modify the intensity of these phases (see later, pp. 120-1). References in this chapter to the Armistice relate to the conclusion of hostilities with Germany.

It will depend also in part on the state of mind of industrial leaders. If they expect a serious Armistice slump, they may cause it. One of the main tasks of the Government will be to give them good reason for expecting something else. The Government can probably do this by explaining at the outset the inevitable hugeness of its own intended programme. Already it is committed to a far-reaching insurance plan for compensating owners of damaged property and enabling them to rebuild. It will be under obligation, further, to members of the Forces. In the last war this obligation involved the payment of £130 million in gratuities and the provision of a suit of civilian clothes for each man demobilised. Similar expenditure after this war will strongly reinforce consuming power. Then there will be the immediate work of dismantling camps, temporary battlements and workplaces, selling and distributing surplus equipment, repatriating troops, returning evacuees to their homes, and re-establishing Civil departments in their peacetime offices. As regards reconstruction, the Government's first responsibility will be to Local Authorities in towns where supply services have been damaged, and to industries providing essential goods. Repair and re-equipment will be necessary on an immense scale. Once the Government has been able to establish full confidence that it intends to play its part in this reconstruction, to guarantee reasonable conditions of Bank credit, to leave resources free for investment, and to subsidise essential services until industry is again strong. Local Authorities and private industry will take up their still larger share of the work of restoration. They will begin at once the repair or replacement of ships, docks, harbours, workshops, machinery, rolling stock, cranes, locomotives and capital equipment of all kinds. Once this stage is reached, the phenomenon most likely to emerge as the dominant feature of the post-war situation will be something akin to the "re-placement boom" of 1919-20. The aim of the Government will be to realise this stage at the earliest possible moment. To that end it may apply various measures, to be discussed in detail later; but the chief of these will be the immediate creation of an optimistic tone throughout industry by the announcement in Parliament of the measures which the Government is adopting as from Armistice Day, and the further programme by which the Government will accept comprehensive responsibility for a plan of reconstruction.

(2) The Government's earliest proof of victory in the post-war

period will thus be the swift realisation of the second phase, the

beginning of a boom in capital replacement.

As soon as the stage of uncertainty is over, the trade situation will be marked not only by active capital development, but also by a serious shortage of consumption goods. As noted earlier, concentration on capital replacement creates at all times a relative scarcity of consumption goods — that is, a scarcity relative to the demand. After a war the scarcity is accentuated both by the exceptional need for replacement and by the fact that much of the existing equipment for producing consumption goods has been out of action, while the staff qualified to use it has been dispersed. Recovery of full-capacity production may take time.

How far the scarcity will extend to basic necessities of life cannot be known till the war is over. There will clearly be a shortage of houses. There may be a lack of coal. In respect of food, clothing, boots and shoes and household requisites some deficiency may be felt in certain lines owing to wartime destruction or to the difficulty of securing imports. Damage to mills, bakeries, refineries, textile works, boot and shoe factories, furniture stores, and those engineering shops which produce capital equipment for manufacturing essential goods, may be only local. Even so, it will probably cause scarcity in large patches. One point of common knowledge among business men is that the absence of any single item, however small in itself, say a machine part, a particular chemical, a certain country's export or currency, or a skilled repair engineer, may hold up an entire process of manufacture and cause scarcity over a wide area. In times of universal transition from wartime to peacetime production, shortage resulting from this kind of deficiency at crucial points is likely to be considerable. The Government's unremitting concern throughout the present war has been to prevent a disastrous fall in the people's standard of living and its action after the Armistice may be in the main a continuation, under new conditions, of the earlier policy of safeguarding essential supplies. The immediate post-war problem will be to generate the utmost expansion of essential-goods industries. The impediment to this may be internal dislocation of the kind suggested above, or it may be intense international competition for the world's most needed goods, due to famine abroad. Whatever the distressing cause, the Government will probably be compelled to assist the essential-goods industries

by granting them priority in claims for foreign currency, imports and reconstruction loans, and by securing similar priority for their orders placed with firms supplying capital equipment. Such measures must be examined later; and to these must be added the possibility of demobilising troops according to trade, in order to favour the same industries.

(3) If this national "daily bread first" campaign succeeds there will soon emerge a third phase in which, although there is no longer a pronounced scarcity of essential goods, there still remains an acute shortage of many other kinds of consumption goods. And the shortage will continue until the replacement boom has run its course.

The tasks of the Government during this third phase will be delicate and varied. A series of mid-courses will have to be steered. To achieve, on the one hand, high-speed replacement of capital and, on the other, protection against the rapid inflation, will require both determined policy and considerable finesse. At all times price trends will be the most serious concern. Any upward turn which begins to gather speed must be averted at all costs; yet some slight upward tendency may be desirable, partly to allow for the rising price of scarce imports, partly to give stimulus to trade. Again, although it may be desirable to prevent a swift rise of prices, any restraint so violently applied as to precipitate collapse would be damaging beyond measure. Finally, this third phase would be one in which the Government's aim would be both to foster the strength of the boom and to *exploit* its strength to the utmost for future needs. This would be the time for building up financial reserves to meet the inevitable future turn of the tide.

The period up to the end of the third phase may thus be regarded as one of deliberate planning to maintain the pace of the replacement boom, to avoid the dangers of either a rapid rise or a fall of prices, and to take advantage of the boom for preparing for more serious problems ahead. The period may last eighteen months, two years or more, according to the extent of wartime damage and depreciation of capital. At the beginning there will be relative scarcity of almost every type of consumption goods. At the end the scarcity will have wholly disappeared, except in respect of houses.

(4) The real test will then begin. The difficulty which has defeated every British Government in the past twenty years of peace will assert



itself again : namely, the tendency for the supply of consumption goods to outrun consuming power. The greater the productive efficiency of the system, the more pronounced becomes the defect. It is the arch-enemy of planning. Indeed, the essence of any long-term plan consists in the ability to cause consuming power at any given time to equal the supply of consumption goods.

In the post-war period the British Government will at first be much better equipped for this task than any former Government. It will still have in reserve the whole range of public and semi-public work which it has been able to postpone during the upswing, including considerable road and bridge development, electrification, railway renewals, and the general improvement of amenities in town, coast and country. There will still remain a large unexpired portion of the programme of building and restoration. Possibly there will be the remnants of military deferred pay. The credits from wartime taxation under the 1941 scheme will constitute a substantial sum if the war lasts long, and could be distributed during this fourth phase. Thus the Government might face the problem of deficient consuming power successfully for some years. Expenditure on all three lines, public works, housing and deferred pay, is of the nature of consumption expenditure. It implies the purchase of goods which do not produce more goods. Whilst it lasts it solves the basic problem of equating consuming power to the supply of consumption goods.

(5) There must come a time, however, when all traditional devices for the solution of this problem are at an end, and the Government is again in the position which has brought economic defeat and political downfall in the past. This will mark the beginning of the fifth and most lasting phase. Only that Government can meet it which has a satisfactory theory of economic planning and is ready to launch new far-reaching schemes on the basis of the theory.

Such, in very brief, would seem to be the five phases marking the probable evolution of economic life after the war. A first phase, in which difficulties of transition to a peacetime economy might combine with a general state of business apprehension to produce an "Armistice slump", will sooner or later give place to a second and a third phase in which the chief features will be capital replacement, shortage of

consumption goods, and a tendency to rising prices. Throughout this scarcity period there will be some risk of inflation; and the end of the third phase will mark the end of this risk and the emergence of a new one. The problem of superabundance will follow hard on the heels of scarcity. At this point comes the beginning of the fundamental challenge to the system. In the beginning the problem should not prove overwhelming, since the Government will have comprehensive reserve schemes for expanding consuming power. When these are all exhausted, however, the moment will have arrived for planning on the basis of wholesale innovation.

These phases must now be examined more fully. The policies open to the Government at each point will be considered, the discussion extending through this chapter into the next.

### THE FIRST PHASE

The Government's aim after the Armistice, we have seen, will be to rush through the first phase to the second. The sooner replacement begins, the less will be the risk of an Armistice slump. Hence all effort will be turned towards generating the replacement boom.

A large share of the development will lie within the sphere of private industry. There can indeed be no effective post-war recovery until the hundreds of thousands of private owners take heart and begin to act. The Government will need to convince them that their way is open, that markets will appear for their goods, that credit will be cheap and savings ample, and that they will not be subject to crushing charges. If the Government does convince them, its own burden will be light. But the only way in which it can convince is to show initiative itself. It will need to present an imposing array of measures within the first few days after the Armistice, some for immediate action, some demonstrating long vision.

The desired effect would be greatly enhanced if the Prime Minister's "Reconstruction Speech" were in readiness as to its main points long before the signing of the Armistice so that he might forthwith reveal to Parliament the programme which is to render the new economy incomparably better than that which helped to generate war. The main part of the speech would be concerned, of course, with measures for adoption in the first three months. But there would be gain in

indicating forthwith those requirements for a long-term peacetime plan which, taken for granted in war, would be as indispensable for effective reconstruction : blood, sweat, toil and tears on the part of leadership, for little return in homage ; national expenditure without stint ; national unity ; industrial service expressed in willingness to align effort with the common cause ; personal readiness to meet cost. No Government can plan without massive popular reinforcement, and it would be sound to proclaim this from the first.

### *Maintaining Consumption*

As regards the Government's battery of plans for the first few months of the Armistice period, the most urgent will relate to the maintenance of consumption. Many employers may with some justification fear a catastrophic fall of demand as soon as men are discharged from war work. They must be disabused of this idea. Drastic steps for preventing a collapse in consumption will need to be announced as soon as there is the least prospect of an Armistice.

One obvious measure is the payment of full wages to men and women dismissed from war work, for a period of at least four weeks of unemployment. The period might be extended if the number of workers unabsorbed into industry remained large. The more lavish the expenditure at this point the less will be the cost to the State in the long run. Indeed, the chief need of the Government will be to find excuses for raising money upon consumers.

Another good excuse will be the payment of war gratuities on a generous scale to demobilised men and women. Further, this would be the moment for introducing a family endowment scheme, allowances being granted for all children up to sixteen. The school leaving age would be simultaneously raised.

Finally, it would be desirable to appoint, in wartime, a Commission to determine a *minimum standard of living* for all people according to their age, sex, civil status, physical condition and work, and to recommend measures for establishing this standard. If the machinery for applying it were already partly operating before the end of the war, the task after the Armistice would be (a) to determine the amount by which the standard could be raised under peace conditions, and (b)

If the Beveridge plan is adopted it will be necessary periodically to raise the benefit under the plan by increased Treasury contribution — this being one method of raising the country's consuming power when it lags behind the potential output of consumption goods.

to complete the machinery for applying it so that the new standard

might be enforced at once.

The above four measures are desirable in themselves, and not merely as an antidote to depression. However, although they could probably be applied on a scale large enough to prevent a serious Armistice slump, the Government would be wise to announce further "reserve schemes" whereby it could, with absolute certainty, prevent a fall in consumption.

It would have at its disposal a certain method recognised in advance for such a use, namely, the distribution of sums credited to taxpayers in accordance with the Finance Act of 1941. The amount available for distribution to consumers, as distinct from firms, will be approximately £125 million for every full year since the Act was passed. The Chancellor of the Exchequer, in introducing his proposals, let it be known that this amount was to be available for refund after the war at any time to be chosen by the Government.

The method could thus be used whenever needed and might be announced by the Government as falling within the scope of reserve schemes. There might in practice be gain, however, in withholding it for a later period. After the war there will arise two outstanding occasions when it is imperative to sustain consumption, if necessary by emergency means. One is immediately after the Armistice. The other is soon after the "replacement boom" has passed its peak. A wise Administration will have ammunition for both, and not all of it will be fired on the first occasion. Thus it might prove sound to hold back the general refunding of tax credits for the second of these periods. One reason for so doing is that after the Armistice, when people will be prepared for all things new, another efficient method might be invented which would be more acceptable than later. In its most elementary form the method consists simply in sending to all citizens an "anti-slump donation" with the request that they use it at once for consumption. An amount, say, of ten shillings weekly for adults and five shillings for minors might be distributed by post until the desired effect had been gained. This is the straightforward method of "consumption endowment". A dozen other ways might be devised for yielding the same effect: a rate rebate; a bonus on all State benefits; a special bank holiday with Government pay; a war gratuity for all workers; removal of the purchase tax for two months,

and so forth. Innovations of this kind would probably be acceptable in the first days of peace, whereas they might be less easily commended when traditions had hardened two years later. The choice of method is, however, the function of the politician and would be based on his knowledge of frustations. In this case, from a wide choice he would need to select some method which could be publicly advertised and would strike the imagination as being practical and efficacious, even though the need for its use might never arise.

In effect, the Government's immediate purpose after the Armistice will be to convince the entire nation that it intends to preclude absolutely any collapse of demand, and that it has the unquestionable ability to do so. If it carries conviction, almost certainly the method chosen to form a "reserve scheme" will not be required.

The highly important question of finding the money for these consumption schemes is best examined as part of the general task of post-war finance, and is discussed a little later (pp. 107-9).

### *Repair of War Damage*

The Government's programme after the Armistice — the programme with which it must inspire confidence in private industry — will comprise measures not only for maintaining consumption but also for promoting schemes of physical activity. Of these, by far the most important will relate to the restoration of war-devastated areas.

Hospitals, essential supply services, transport and communal facilities generally will have suffered in almost all towns in Great Britain, while in some the damage will have been very extensive. The complete repair of such damage will be the Government's first care in the sphere of physical reconstruction. No doubt the Local Authorities will waste little time in restoring the main services; and in this they will have the benefit of the various financial schemes emerging from Section 40 of the War Damage Act. However, these schemes are all invented by the Government, and its Departments will have a continuing responsibility to ensure that the plans give satisfaction when actually applied. As is shown in the later chapter on Building, there is considerable risk that the cost of repair will fall most heavily on those ports and towns which, owing to depopulation or exceptional destruction, are least able to bear it. A general review of local finances at the close of hostilities would seem urgently necessary in order that all

burdens arising from wartime destruction may be spread evenly over the whole country.

### *Housing*

The reconstruction of houses will constitute the largest single source of post-war demand for labour. From almost the beginning of the war the British Government has recognised this fact, and more attention is being bestowed on the future development of housing than on any other aspect of planning.

Five limiting factors principally determine the rate at which expansion can proceed : (i) the supply of materials ; (ii) financial provision ; (iii) preparedness of plans and avoidance of official restrictions ; (iv) demobilisation and training of labour ; (v) the training of management. Most of these points are being studied officially, and the notes made on them here are intended chiefly for completeness.

(i) As regards materials, the principal shortage will be of imports, such as timber. The risk of a serious bottle-neck in this field might be averted by the immediate dispatch of a special fleet to the Baltic ports, carrying food and fuel, and bringing back wood. Steel may likewise have to be imported. A scrutiny of the list of other building materials, coupled with a census of building-materials industries and a review of foreign sources of supply, would provide the basis for a detailed plan of swift expansion in the first days of peace.

(ii) The financial provision mainly required for the rebuilding of houses is *not* that which is offered under the War Damage Act, though this is valuable. It is the owners of damaged houses who are to receive the compensation ; but it is not they, in general, who will be responsible for rebuilding. Presumably the reconstruction of towns will follow extensive plans to be laid down by local planning authorities in accordance with a national master plan ; and permits to build will be given mostly to local Councils and to large contractors. Building by individual owners of war-damaged houses will be a small proportion of the whole. Hence the financing of local Councils and contractors will be the chief interest.

It is true that under Section 7 (3) (a) of the Act the War Damage Commission can require individual recipients of "value payments" to apply their payments to the construction of buildings to be used in

substitution for those which have been damaged. And this provision might form the basis of a plan for diverting compensation money into the hands of the authorities actually responsible for rebuilding. But the administration of such a plan would be extremely cumbersome. A much simpler method would be to synchronise the payment of compensation with a general Housing Loan, and to make the proceeds of the loan available to the authorities which are given permits to build.

In any event, the paramount financial aim is to ensure that municipal authorities can afford to build, and that both can secure the needed capital. The solution will be found along the following lines : (a) the maintenance of a low rate of interest (see the chapter on Banking, pp. 277-86) ; (b) reduction of building costs (see chapter on Building, pp. 240-54) ; (c) extensive Government borrowing on behalf of small municipalities, through either a Housing Loan or the Local Loans Fund ; (d) the avoidance of undue limitation of resources by taxation (see later, pp. 108-9) ; (e) the resumption of the pre-war system of slum-clearance subsidies, together with an additional subsidy for all working-class housing.

(iii) The nation's first large experience of planning will be in the construction of houses under the Ministry of Health and the Ministry of Works and Planning. A supreme opportunity is thus given to these Departments, in view of the ample time for preparation, for commending to the public the general idea of nation-wide planning. It cannot be too emphatically urged that all architectural issues involved in the plan should be decided long before there is hope of declaration of peace, that the new design for every town should be revised and re-approved after every heavy bombardment so that it may be perpetually up-to-date, and that, except where delay is imposed for unforeseen reasons, permission to build as from Armistice Day should be given in respect of the entire planned area.

(iv) Likewise the plans for training new labour should be in readiness for immediate expansion as soon as the last bomb has dropped. In the long run no bottle-neck is likely to be as serious as that caused by shortage of skilled labour.

Before the war, the Ministry of Labour organised training schemes which covered most building operations, and apparently the schemes

could soon be revived. Obviously, however, no small-scale arrangement will serve. A completely comprehensive scheme, affording instruction in brick, masonry and steel construction, roofing, plumbing, carpentering, decorating and all allied trades, and in the manufacture of builders' materials, tools and machinery, should be in readiness with equipment in place and a staff under orders to mobilise at twenty-four hours' notice. Moreover if, for military reasons, demobilisation is slow, similar courses might with advantage be organised in the Army itself. If jobs were guaranteed at the end of the training, there would be no lack of volunteers.

(v) Employment could be guaranteed only if a considerable part of the new expansion were to be undertaken by public authorities. In the later discussion of Building it is suggested that a National Department of Architecture and Construction be formed for undertaking or issuing contracts for buildings which could be made with standard units. Such contracts might be made conditional on the employment of a certain proportion of ex-Army trainees. In addition to operatives, there would be needed managements and clerical staff, which might be recruited partly from the Royal Engineers and the Army Pay Corps through the medium of special instruction courses and tests.

It is clear that the expansion of the building industry at a rate rapid enough to meet the needs of the legions of newly married or engaged ex-soldiers seeking homes, and of the great numbers of evacuated families, will call for extensive agreements between the Government and the Building Industry. In so far as guarantees are possible under a Party system, the firmest undertaking might be given by the Government in respect of the industry's future. There is no practical limit for many years to the national need for rebuilding. Hundreds of thousands of houses not destroyed by bombs could with advantage be destroyed by hand and rebuilt. Every rise in the recognised standard of housing sends many more thousands to a destitute doom. Moreover, if the highly injurious system of laying a huge tax on houses in the form of rates is at any time replaced by something less primitive and ill-conceived, housing standards may rise to such a height that nine-tenths of existing dwellings will be out-of-date. In sum, it should not be difficult for the Government, assuming that it has the power to enter into any moral contract whatever, to guarantee the building



industry against adverse future repercussions from any present liberal action.

Notwithstanding the enormous scope of the Government's own programme, it would not be enough to solve the problem of unemployment without the rapid expansion of private industry. Were the Government's reconstruction drive to develop without the slightest administrative hitch and were it to attain the greatest size conceivable, it could never be more than a fractional substitute for war industry as a means of absorbing labour. The true alternative to wartime work is full-capacity production of peacetime goods.

This fact inevitably lessens the responsibility of the Government and adds to that of industry. The Government's economic domination in peace is much less than in war. Responsibility for peacetime reconstruction rests, therefore, in large measure on the multitude of industrialists who in fact take control. The Government would seem justified in making this logic plain at the outset, and in challenging industry to begin at once the work of capital replacement on the understanding that the Government would provide the due setting. The setting would consist partly of sound conditions of consumers' demand, Bank credit and taxation. And when this financial background had been assured, there would remain the scarcely less important consideration of guarantees to be given to the separate industries.

### *The Financial Setting*

Earlier certain measures were noted whereby the demand of consumers could be maintained with certainty at a level which would make the continuous expansion of industry profitable. But it was not then shown how the money for this was to be raised. Clearly, the means adopted must in themselves neither diminish consumption nor destroy the savings required for expanding industry. How, then, is this possible?

The solution, in very brief, is to continue the methods of wartime finance. The use of measures appropriate to war would be extended until the replacement boom had gained full momentum. Apart from taxation these methods consist in borrowing, on the one hand, from the public, and on the other, from the banks. Borrowing from the public after the last war was effected through the launching

of a Funding Loan and the sale of Victory Bonds; and it may be presumed that the same kind of public borrowing will take place after this war, though the interest may be much less than 5 per cent, which was approximately the rate in 1919.

As regards the Government's loans from the Clearing Banks—as distinct from the Bank of England—a scheme, the details of which are given elsewhere (see pp. 277-80), is proposed for covering every occasion on which the State may wish to borrow either for its own expenditure or for assisting industry with Bank accommodation. The scheme involves the issue to the Clearing Banks of Treasury Par Stock, redeemable by the Treasury at par on appeal by any bank with the assent of the Planning Authority (a Planning Cabinet similar to the War Cabinet), and therefore ranking high on the list for liquidity.

### *Taxation*

Let it be supposed that the total expenditure to be met by the Chancellor in the first year after the war is £3,000 million. This is a purely illustrative figure; but if it were to include, in addition to ordinary peacetime expenditure swollen by interest on the new war debt, £150 million for family allowances, £100 million for raising the minimum standard of living, £250 million for gratuities and other allowances to demobilised troops and discharged war workers, and £250 million for immediate aid to municipalities, there would remain little more than £1,000 million for supporting the Forces during repatriation and demobilisation.

The Chancellor, being faced with an expenditure of £3,000 million, might finance it by, say, public loans realising £1,500 million, taxation providing £1200 million, and Bank-borrowing to the extent of £300 million. The proportions which these figures bear to one another may be regarded as fairly representing "wartime finance".

During the first year of peace it would be sound to reduce tax rates below wartime levels, especially on small incomes. The main reason is that despite the growing number of large-scale concerns dependent on public savings, British industry remains preponderantly a system of small units financed by private means. For instance, Building and Construction, Cotton, Wool and all other textiles, the Leather and Shoe Industries, Agriculture, Distribution, the Food Industry, Engineering, the fabricating section of Iron and Steel, large

areas of the Coal Industry, and the Road Transport Industry all include a high proportion of firms in which capital replacement depends largely on the personal savings of the directors. If these firms are to share fully in creating the replacement boom they must assuredly be allowed some relief from profit taxes.

(Apart from current profit the sources available for renewal of plant in small firms are the gratuities of returned soldiers, refund of excess profit duty, and bank overdrafts. War gratuities will be paid at once as a matter of course. And it is suggested that all firms entitled to refund of excess profit duty under the Finance Act of 1941 should be given the option of receiving it for immediate investment or of subscribing it to the new Victory Loan.)

The above sources may not, however, meet the capital requirements of many firms which have lost trade during the war, and there is an evident need for some special Government scheme to help them. A proposal to this end (see the chapter on Engineering, pp. 178-9) is that the Ministry of Supply should be given power to recommend any firm for a bank loan at fixed interest for a stated duration; and that the bank, in making the loan, should be secured by the deposit of Treasury Par Stock covering the amount of the loan. The loans, though of fixed term, would be renewable. Firms would be selected for support from a priority list of essential industries drawn up by the Ministry of Supply, account being taken of each firm's financial record and of the alternative sources of capital available to it.

### *Export*

A similar scheme is proposed for assisting industries dependent on export. The method in this case involves a Government enquiry, through agencies associated with the Export Credits Guarantee Department, into the credit-worthiness of potential foreign buyers. According to the results of the enquiry a risk premium would be fixed for each foreign contract, to be included in the contract price. This premium would be determined by the Export Credits Guarantee Department; and the endorsement of the contract by the Department would be equivalent to an instruction to the exporter's bank to lend him 85 per cent. of the contract price. The bank, again, would be covered by the deposit of Treasury Par Stock. (For further details, see pp. 179-83.) In addition to the above schemes there might be large-scale inter-

national loans for reconstruction in Poland, the Balkans, the Baltic countries and China, together with loans for re-equipment in Scandinavia. Such loans would no doubt be advanced on conditions guaranteeing immediate payment to firms called upon to furnish the exports. (See Volume II, in preparation.)

### *Exchange Rates*

When international war has ended, revolution and rumours of revolution may prove even more disruptive financially than the war itself. The flight of capital may reach great extremes, and unless the movement is withstood, importers and exporters everywhere will be embarrassed by lightning fluctuations in exchange rates. Capital will in general surge towards countries which supply scarce goods. The exchange rates of these countries, already high, will be forced still higher by the new flood. Importing countries will then be penalised by having to pay import prices raised via the exchange rate.

In other words, the flight of capital and the dislocation of exchange rates will aggravate the worst feature of the post-war international situation: the inability of impoverished countries to buy, and the inability of the wealthy countries to find outlets for their goods. The flight of capital implies, in fact, an international loan going in the wrong direction.

Since 1919 the art of regulating the outflow of funds has been progressively mastered by various nations under the most difficult and diverse conditions. There may be much value in organising an international conference immediately after the war with the specific purpose of broadcasting the knowledge acquired in the past and inducing countries, especially those with threatened exchange rates, to develop controls over all exits for capital.

Apart from such foreign intervention, "healthy" nations can protect their own traders in various ways. Through agreements among themselves, supported by exchange equalisation funds, they can prevent any disturbance of their mutual exchange rates by speculation or by refugee fund movements. And by means of an international forward exchange system they can secure foreign currencies for their own importers at prices fixed in advance. British traders, whether importers or exporters, would be fully covered by the measures mentioned. Any importer, having to pay an

account in a foreign currency after a lapse of six months can, if he wishes, protect himself against a rise in that currency by purchasing forthwith an asset of fixed value expressed in terms of the currency and selling the asset at the end of six months. A forward exchange system exists simply to effect equivalent transactions for him. The wider the international scope of the system the more comprehensively will importers be covered. As regards British *exporters*, they require no protection against exchange fluctuations since their prices are fixed in terms of sterling. But they need security against default by the foreign purchaser, and this can be provided through the further development of the present Government system of guaranteeing export credits.

It may be noted that the full protection of exporters and importers is possible without any attempt to stabilise exchange rates at definitely fixed points. Such an attempt would be profoundly misguided. No economic bond is more rigid than a legally fixed exchange rate. And it will not be safe for any two nations to accept this mutual bond until some years after the war when they have evolved planning systems of proved efficiency. If, when this stage is reached, both are satisfied that they are pursuing like policies, especially as regards price structure, they may with safety consolidate their currencies through a permanently fixed rate of exchange.<sup>1</sup>

In view of the appalling economic destiny which awaits the United States unless that country plans with a prodigality hitherto scarcely conceived, it might prove above all disastrous to re-fix the exchange rate between sterling and the dollar. (See Volume II, in preparation.)

### *The Rate of Interest*

Measures for keeping down the rate of interest include : a low Bank Rate, assured only when the Bank of England is freed from responsibility for the exchange rate ; untrammelled purchase of securities by the Bank of England and the Clearing Banks, the main requirement for this being that the Clearing Banks should be released

<sup>1</sup> Much of this summary may appear dogmatic and by no means self-explanatory, but it seemed essential at some point in the book to bring within the compass of a single chapter a description of the probable events of the first two post-war years together with suggestions on every significant aspect of the economic policy for which a Planning Authority would be responsible. A broad perspective over the whole field of planning is clearly desirable, although it is scarcely possible without a dangerous brevity. This is partly compensated by the fuller descriptions in Parts III and IV, but not entirely, since it has been necessary here at some points to draw on work still in progress in Volume II.

from concern about the liquidity of their assets; expansion of the note issue when needed; and the fixing of low rates for Government loans and conversions. (See pp. 282-3.) It is suggested that special efforts should be made by these means to prevent any rise in the rate of interest during the first six months after the Armistice.

#### *Guarantees to the Several Industries*

So far the proposals have covered the Government's own activities, public works and plans for consumption, together with the general financial background of reconstruction. It is evident, however, that there will be considerable anxiety among business men to learn precisely how each industry will benefit from the programme, and what specific part is allotted to it in the national plan. Thus as a further means of establishing full confidence the Government might meet representatives of all the main industries in turn, to lay before them the plans for their own expansion.

Some industries may be in no need of special assistance in the first two years after the war. In these cases some assurance regarding the Planning Authority's own concept of industry's preparatory thinking would cover at least three years and that it would reach some decision on a suitable policy to be adopted for each industry at the end of that time. Knowledge of this decision, however remote the action, would be peculiarly valuable to the industry at the moment when it was facing the tasks of reconstruction immediately after the Armistice.

Certain industrial groups have already been considered from the point of view of suitable guarantees. As regards engineering and allied trades, the main fact of interest is that they produce capital equipment, and all schemes for investment, more especially in steel structures, are equivalent to the planning and expanding of engineering. Two such schemes for enabling firms to invest in steel equipment have just been mentioned. Their special relevance for engineering industry's leaders. The Government might further declare its intentions regarding

the long-term planning of investment in Shipping and Shipbuilding, Railways, Roads, Textiles, Building and the Land. (See Part III.)

#### *Consumption Goods Industries*

In the case of producers of consumption goods and services, the Food Industries, Cotton, Wool, Rayon, Carpets and other Textiles, Leather, Furniture, Hardware, Chemicals, Radio, Electrical Products, Printing and Paper-making, and Transport, the chief guarantee would be the Government's central plans for maintaining consuming power. The significance for food industries of a family endowment scheme, or of the nation-wide establishment of a minimum standard of living, is evident. Little imagination is required to perceive the effect of generous war gratuities on the manufacture of radio sets or light vehicles. The gain to road and rail transport from holiday grants is likewise plain. Nevertheless, a Government whose planning system is based fundamentally on the control of consuming power might with profit declare its method, and point out to consumption-goods industries the precise implication for their welfare.

Direct aid to these industries might be given in ways even more manifest. Clothing, textile and leather trades would benefit from the issue of a complete civilian outfit to all demobilised members of the Forces, male and female; and the assurance to these trades might be made specific if the Government were to indicate the actual sum which would accrue to each trade through the expenditure on clothes and footwear.

As regards Building and its satellites — Brick-making, Quarrying, Tile Manufacture, Glass, Lead, Paint, Chemicals, Furniture, Carpets and Hardware — it would be possible in each case to give quantitative guarantees. The Planning Authority might draw up an estimate of gross expenditure on housing, public and private, to be accepted by the Government as the target for the plan in the coming four years. Then from an analysis of building costs it would be a simple matter to indicate the proportion of the gross sum which would be passed on to each ancillary trade.

The list below indicates a number of key issues likely to affect industries in the immediate post-war period. (Most of the points are discussed in Part III.) A definite, predetermined policy on these

matters will go far towards establishing a sense of assurance among business men.

*Agriculture.* Evidence that deflation such as occurred in 1920-21 is to be avoided. Price and wages policy in agriculture. Britain's food plan. Food import policy.

*Coal.* Intentions as regards nationalisation.

*Iron and Steel.* Import policy.

*Shipping.* Trade policy under the Atlantic Charter. Control of surplus capacity in shipping.

*Shipbuilding.* Control of the replacement rate for both merchant and naval ships.

*Railways and Road Transport.* Extent of nationalisation intended. Method of controlling over-expansion in road haulage.

*Cotton.* Assistance in the recovery of export markets; creation of fair conditions of international trade; provision of machinery, especially in weaving; training of skilled labour.

*Publishing, Printing and Paper.* Date of termination of paper rationing.

*Motor Cars.* Intention with regard to taxes on cars and petrol, licences and import duties. The possibility of disposing of military lorries abroad.

### *Public Utilities*

Finally, there are certain economic groups with which the Government would desire to make a bargain. Some industries and public bodies are in a position to advance or retard capital development at will, and it would be the Government's concern to arrange with them the greatest possible accumulation of "reserve schemes". Municipalities will be the main source of such schemes. Whereas the restoration of essential services in towns which have suffered bombardment must be deemed emergency work having first call on the nation's man-power, there will be, in addition, much scope for municipal development of a less urgent kind. An impressive list of reserve schemes for the improvement or repair of harbours, waterways, airports, transport terminus buildings, bridges, communications, markets, commodity exchanges and shopping centres might be prepared on the understanding that the work would be held in abeyance till the Government called for action.



Various other bodies could assist in the same way. The Government might call on Railways, Insurance Companies, Banks, Boards controlling Electricity or Gas Supply, Transport Companies, the British Broadcasting Corporation, Drainage Boards and Public Utilities of every kind to furnish returns indicating capital development which is essential, desirable or possible, the items being placed in order of urgency. The purpose in view would be to enable the Government to enlarge the volume of work capable of being deferred or started at its own signal. In gaining the assent of each body to control over its peacetime expansion, the Government might offer a *quid pro quo* in the form of cheap credit or, as in the case of Banks, guaranteed aggregate profit. Similar agreements for the preparation of "flexible" reserve schemes of capital development might be reached with large concerns such as the Co-operative Society, Imperial Chemicals, Unilevers and the huge chain and multiple stores. All told, the volume of such schemes held under the Government's finger might become a truly significant amount.

Although it will be imperative for the Government to present an impressive catalogue of intended works in the first days of peace, the more it can hold in suspense, while achieving its ends, the greater will be its enduring capacity to direct, regulate and plan. It needs to be able to display a vast potential programme before the eyes of industry and then say, "Come what may, this Government can, and if necessary will, generate activity on such a scale that all men will be drawn into work. But it will be immeasurably more to the general good if industry itself initiates the work. To this end the Government guarantees three things: a careful consideration of the special needs of each industry; the provision of a general setting favourable to the recovery of trade; and the filling of any gap in private enterprise by public enterprise, so that each industry may expand in the assurance that expansion will be general."

Let it be supposed, then, that the accumulation of the influences so far suggested — the deliberate maintenance of consuming power immediately after the Armistice, financial support to municipalities for the restoration of essential services, the provision of capital through a Victory Loan for the reconstruction of devastated zones, the extension of Bank credit to private industry at fixed rates for capital renewal, a

special system of export credits, reduced taxation, and separate guarantees to each of the basic industries — leads within a few weeks of the Armistice to the beginnings of a replacement boom. The Government's most difficult task of the first two years is then ended. The snowball will have started. Replacement creates employment; scarcity, a rapid turnover of goods, a tendency to rising prices, ample profits and general optimism; these, in turn, lead to more replacement. Once the trend is right, the Government need only watch and restrain. The start is infinitely important. To make sure of this the Government should not only prepare a giant programme: it should proclaim it with Gargantuan voice.

### THE SECOND PHASE

The effect of many of the above measures may be to raise a cry of "Inflation!" That would be good. The danger to be feared after the Armistice is a serious slump in prices, leading to general disorganisation and a lack of boldness in changing over to peacetime trade. The expectation of an advance in prices would be an antidote. In itself it could hold no threat, for inflation can be easily checked by measures about to be described.

Part of the means for obviating a rise in prices is to speed up the production of commodities in most stringent demand. Such a task would fall to the Ministry of Supply; in fact all major problems in the "second phase" are the concern of that Department.

The second phase is distinguished, it may be recalled, by scarcity of consumption goods, due, on the one hand, to wartime contraction of industry and, on the other, to the impetus given to demand by the boom in replacement. It is a shortage caused partly by the effort to overcome it. The aim at all times, therefore, is to correct the most serious deficiencies first.

The role of the Ministry of Supply in turning from guns to butter is to apply wartime methods with undiminished drive. Fortunately, the peacetime task is much the shorter. Whereas war supplies call for the creation of a vast productive machine from an extremely small nucleus, much peacetime plant is permanently in being. At the time of the Armistice some essential industries will be working at high

pressure already : Coalmining and Agriculture, for instance. Thus the problem of preventing food scarcity will be for the most part one of reorganising sea transport and making use of munitions ships to bring in farm products and feeding stuffs. Other industries, starting from much lower levels of activity, will likewise depend mainly on the import of materials for their new expansion.

The preparation which will lead to the smoothest development of essential supplies has three main aspects. First, for every industry it will be necessary to draw up a list of materials or semi-manufactures required from abroad, together with a catalogue of alternative sources. The compiling of such lists in conjunction with the industries themselves will be the work of the Ministry of Supply supported by the Ministries of Agriculture and Fisheries, Food, Mines, and Works and Planning. When all lists are assembled it will be possible to determine both the quantities and the qualities of the items most imperatively needed in the first months.

Then through the Export Council and the various Government services dealing with overseas trade it should be possible to make some forecast of exports available for exchange against imports. The arrangement of foreign contracts in anticipation of peace, and the dispatch of an expeditionary force of salesmen to the main importing countries would give a much-needed initial spur to foreign trade. In addition, inventories might be made of exports and re-exports which could safely be sent abroad without receipt of orders.

Thirdly, with these data the Minister of Supply might approach the Minister of Shipping for a joint decision on the optimum use of existing tonnage for effecting both import and export.

These are the main requirements ; but they are by no means exhaustive. If the Minister of Supply is to be made finally responsible for obviating scarcity he will need power not only to commandeer ships, secure essential imports and determine priorities for the orders of particular industries and firms, but also to provide credits for re-equipment and the purchase of materials, acquire foreign currency, secure the demobilisation of men in selected trades, subsidise overtime and enter into direct conversations with employers for the solution of detailed problems of supply. It is a task for an administrative genius. And behind the genius it would be desirable to have full sovereign authority. In view of the need for instant decision and swift co-

ordination among Departments there would be gain in having a court of reference permanently in being — an Economic Cabinet, as Planning Authority, to which the Minister of Supply might at any moment refer.

Accordingly it is suggested that there should be established an Economic Cabinet comprising the Prime Minister, the Chancellor of the Exchequer, the President of the Board of Trade, the Minister of Labour, the Minister of Supply and not more than three others. This would act as the highest executive in the State, subject to Parliament, for all matters of economic planning. Preferably a Planning Authority of this kind should exist now. And although the preparation of reconstruction plans during wartime might be delegated to other bodies, there would be immeasurable advantage in settling the responsibility for such plans long before they were actually needed.

### *Price Control*

The organising of essential supplies may be virtually complete within six months; but a much more lasting task will await the Ministry of Supply and later the Board of Trade, namely, the extension of control over the country's price structure. The object at first will be to prevent any considerable rise of prices during the replacement boom, when inflation would prove disastrous. At the end of the boom, however, the further, permanent aim will be to provide a secure ceiling under which consuming power may be expanded in absolute safety.

Although price-fixing may be superfluous in the first phase when a drop in prices is to be feared more than a rise, it would be a mistake to abandon wartime controls, except where voluntary systems replace them. In no case would there be advantage in allowing prices to swing freely again. Rather, as the variety of output grows, it will be sound to extend control at once to the new goods. Already the range of goods covered by Ministry of Supply Orders and by the Goods and Services (Price Control) Act of 1941 is wide, and a strong position has been created from which control may be steadily spread.

In any British planning system the greater the voluntary element the more surely will the system succeed in the long run. It is on this ground primarily that the plea is made here for an Industrial and Economic Parliament to initiate plans and administer those parts

which are obviously within the province of industry. Price-fixing schemes might be invented and largely controlled by this body. And since the schemes would be required in the "second phase", it would be desirable to form this Parliament as early as possible after the Armistice. (For the constitution and functions of the Industrial and Economic Parliament, see pp. 145-8.)

Conceivably such a Parliament might become persuaded that planning can be made fully effective without recourse to price-fixing. As after the last war, there may arise an outcry for the abolition of every kind of wartime restraint, followed by a scramble for the good things that inevitably fall to industry in times of dearth. If this should happen, the yield of this war is almost nothing : at the most, breathing space. If other moods prevail, however, and it is recognised that planning logically entails some coherence of policy and confinement to agreed lines, it is wholly desirable that industry itself should lay down the lines. And where the system of planning calls for the active strengthening of the capacity to consume, made safe by a firmly held level of prices, it is imperative that industry should reinforce every effort to hold the prices.

Where voluntary price-fixing arrangements are developed, the methods may vary widely from one industry to another. It would be the function of this Parliament to invite each industry to prepare a scheme suited to its own conditions. Certain main principles would nevertheless apply to each case. It would be necessary to establish grades, standards or quality specifications for classifying all the industry's products ; and a technical Committee might first be appointed for this. Then, a system would be essential for collecting statistics of costs, specially designed to reveal the proportion of cost attributable to each grade of goods. It would be helpful further to recruit a staff of accountants for marshalling and interpreting returns and suggesting suitable methods of keeping accounts.

In the actual fixing of prices several arbitrary factors would enter. It would be necessary to lay down a fair average rate of profit for each industry, due regard being paid to the special proficiency required of its entrepreneurs. The fairness of the wage rates paid would likewise have to be judged. And the level finally chosen for the price would need to allow for foreign competition, the existence of substitutes, and any other special market conditions. Hence, although tentative

proposals for maximum prices in each industry might be made by representatives of the industry itself, there would clearly be need for an independent final arbiter; and for this purpose it has been suggested that the Industrial and Economic Parliament might set up a Price-Fixing Board.

The functions of this Board might suitably include, in addition to the work of adjudication, supervision over the setting-up of price-fixing machinery and, if still incomplete, wage-fixing machinery, in all parts of the industrial system. As soon as such machinery had been spread to every considerable branch of trade, the measures specially needed during the "second phase" might be regarded as complete.

### *The Effect of the Eastern War*

A digression is necessary at this point to note the possible effect which Japan's entry into the war may have on the two above-described "phases". Victory may come in Europe before it comes in the East. Should this happen, the risk of an Armistice slump at the end of the war in Europe will be lessened, since a considerable military force will remain in the Pacific and will require support by British industry. Further, before the Eastern war has ended, the transition to a peacetime economy in Great Britain may have progressed far. Boom conditions may even have arisen, caused partly by replacement, and partly by continued expenditure on the distant war.

The broad effect of a "tapering" conflict will be to render the first and second post-war phases less distinct. Not only will the danger of an Armistice slump be lessened: the problem of scarcity in the second phase will be less acute, for there will be more time to restore peacetime industries before the most urgent demands arise for their products.

These possible effects make no difference to the kind of preparation required of the Planning Authority. There will still be a need for plans for avoiding both slump and scarcity; and the nature of the plans will be determined by these purposes. If there is a slow finish to the war, the action required may be less drastic and more time may be allowed for its development; but the nature of the action will not change. Furthermore, whether the fight ends suddenly or slowly, the aim of the Planning Authority will be to generate the replacement boom as

rapidly as possible. Unless the Eastern war outlasts the European war by more than a year, the character of the replacement boom, and of the "third phase" about to be described, will not be much influenced. Long postponement of the end in the Pacific might cause the British boom to be more tenuous, sensitive or liable to setbacks. But no considerable risk of this is to be expected unless the delay is great. If the Pacific war ends first, no change is needed in any part of the present description.

### THE THIRD PHASE

In what follows it is assumed that the plan in the first six or nine months has been successful; that largely through the initiative of private enterprise the replacement boom is gathering speed; that the tendency of prices is towards a rise, but that this is held in check by the gradual spread of control, partly by official Departments over the prices of essential goods, rents, public charges, transport rates and municipal supplies, and partly by private industry over a considerable range of standard goods; that interest rates are low, and firms eager for credit; that building and construction work is expanding; and that, whereas there is no shortage of essential goods except houses, there is still a marked shortage of many less urgently required consumption goods.

In these conditions, the Government will be faced with two contradictory aims: the need for "exploiting" this period of strong growth in the interest of the future; and the need for avoiding any action which will sap the strength of the movement, cause shock, or in any other way destroy the upward trend.

It is the only period in which a reserve for the future can be built. If this critical phase is allowed to pass without being fully used, the notion of "planning from strength" will have to be abandoned. And although "planning from weakness" is always possible, given the national will, it calls for much greater innovation and drastic action. If the beginning of the system of long-range planning is deferred until after the apex of the replacement boom, it will present much heavier tasks than if it is begun before.

Not more than a year, or at most eighteen months, can safely be assumed for this period of exploitation. What then is to be achieved? The chief aim throughout this phase will be to make powerful

and comprehensive preparations for the coming threat of over-supply. The absurdity of having to regard superabundance as the major post-war problem is evident. Yet it is in fact the problem. And the essential preparation is the creation of reserves of activities and funds for generating consuming power at the right moment.

Arising out of the first and second phases there will already be certain schemes in hand. The housing programme for rebuilding war-devastated towns may be expected to accelerate for three or four years before its peak is reached, and this in itself will provide an exceptional means of buoying up trade. In addition, there will be the whole range of municipal and semi-public "reserve schemes", if the Government has succeeded in generating the boom without recourse to these.

To the purely domestic programme must be added whatever work is to be done under the American Lease and Lend Act. Possibly it would be unsound to assume that refund in kind will be required in large amount. The passage in the Act dealing with repayment of materials is as follows: "The terms and conditions upon which any such foreign Government receives any aid authorised under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory".

If new disarmament pacts are adopted after the war, manifestly the American Government will prefer American works to produce whatever slight increments of arms are allowed to the United States under these pacts. Thus it is unlikely that the goods made in Great Britain to meet Lease-Lend obligations will be of the same kind as the goods borrowed. With regard to civilian goods, there is not much that Great Britain can produce which will not compete with American manufactures; and the industries of the United States will be exceedingly hard pressed to find markets themselves. The safe conclusion is that as a means of creating employment in Great Britain, the Lease and Lend Act does not hold large promise.

Stronger hopes may be built on the prospect that after the war many impoverished nations will welcome loans from creditor countries, and that these loans may be made in kind, for example, in coal, engineering

: See also the "Mutual-Aid Agreement" signed by the United States and Great Britain on 23 February 1942.



products or technical service. Opportunities may also arise for large-scale contracts between Governments, especially in relation to the supply of capital equipment. It would be the function of the Export Council to explore the world for such openings.

### *Tax Credits*

By far the most important preparation already made for averting a

"post-replacement slump" is the Government's undertaking to repay part of the special taxes imposed during the war. It will be recalled that the increase of taxes on low incomes in 1941 and the earmarking of a certain part of the increase for refund had a double purpose: to restrain consumption during the war; and to provide a means for expanding consumption after the war at any chosen moment. However, it is not the money actually collected during the war which is to be repaid. That money has been spent; and when the time comes for paying back, new money will have to be collected from taxpayers. The chief author of the scheme, Lord Keynes, proposes a Capital Tax for the purpose. If this is to be the method used, the tax must be assessed, imposed and largely collected in the course of the third post-war phase in order that the proceeds may be available for the fourth. If the reasoning in the last chapter is sound, a Capital Tax would be the ideal means for meeting the special need of sustaining consumption. Its psychological effect would nevertheless be quite incalculable. And in view of the delicacy of the situation in the third phase, some careful procedure is required for dealing with all sources of scares or misinterpretation.

Again, it is suggested that the parliament of industry is the body to take this matter in hand. In its proposals for the Planned Budget the Industrial and Economic Parliament would be required to put forward recommendations for expanding consumption in the fourth phase and, in particular, for paying off wartime credits. The Parliament might perhaps find better means than a Capital Tax. But were it to express approval of this form of tax as its first choice, the measure would be rendered wholly innocuous from the psychological point of view. When backed by an organisation fully representing employers, workers, professions, finance, politics and the national press, it could hardly be made the subject of a scare or be misread. Certain economic precautions would remove the possibility of any

direct disturbance to trade. The tax would be imposed on individuals, not on firms. It would be payable in Government stock, industrial debentures or other selected fixed-interest securities at predetermined prices. Thus there would be no need for contributors to sell plant, land or stock in order to meet the levy. In cases where no fixed-interest securities were available, payment by mortgage on property would be allowed. But such cases would be few if fortunes less than £10,000 were exempted altogether, as is proposed.

Stocks and shares taken over by the Government need not be realised at once but might be held in the name of the Treasury till the moment arrived when it was desired to pay off the war credits. The banks would then buy a large enough proportion to keep the average value of the shares constant. And the Government would use the proceeds for paying the wartime taxpayers.

As regards the valuing of each contributor's total capital, no problem is involved that has not been already solved for purposes of Estate Duty. The same method of assessment would be used as for Estate Duty; but the task would be simplified by the omission of small fortunes.

It is recommended that the rate of tax should be adjusted to yield not less than £1500 million. Initially, the whole of this amount might appear in the national accounts as extinguishing national debt. But at least £1000 million, it would be understood, might be used to redeem war credits and in other ways expand consumption whenever the need arose.

Once this major financial operation had reached the stage at which the Government was empowered to collect the tax, the Government would be armed against all eventualities for some two or three years. Its main work in the preparatory phases of reconstruction would be complete. It would then confront the long-period tasks of economic planning emerging in the fourth and fifth post-war phases in the full knowledge that at least the opening stages would be under control.

*The Turn of the Tide*

Various unique features mark the close of the third post-war phase and the beginning of the fourth. The period may justly be described as "the turn of the tide" since it coincides with the high point of capital replacement. And although, if the national plan succeeds, there will be no check in the flow of general trade, this result will be won only despite a considerable ebb of replacement.

Leading up to the high point, the following aspects of the situation may be noted. Renewal of plant in private firms will have continued to afford work for industries such as Engineering, Building and Construction, Iron and Steel, Shipbuilding and the Motor Industry. Likewise a large and ever-expanding national scheme of house construction will be in progress, the peak being not yet reached. Essential municipal supply services, however, will have been fully restored.

As regards public finance, it may be assumed that the Current Budget, whereby regular tax revenue is equated to ordinary recurring expenditure, will have been securely balanced. The Planned Budget is assumed to be in operation, having provided for a capital tax yielding a potential reserve of £1000 million for consumption expenditure.

In the social sphere, the main premises are that the "minimum standard of life" has been established, that the machinery for the swift raising of the standard is complete, and that a family endowment scheme has been operating for some time.

Interest rates are assumed to be low and credit easy. Indeed it is one of the fundamental principles of the proposed plan that at no stage should any restraints whatever be imposed on industry, other than through the control of prices, so long as this control itself remains firm. In all that follows it is understood that a system of price regulation, partly official and partly voluntary, is in force as an enduring feature of the national plan.

## THE FOURTH PHASE

Arising from conditions which thus represent the end of the third phase there may emerge, with little warning, a new and menacing change in affairs. It will be well to review exactly what events are to be feared.

Peacetime industry, fully restored, reorganised and equipped with modern machinery, will be in a position to produce more consumption goods than at any time in history. While the output of such goods daily increases, little change may occur in the capacity of people to buy. Workers transferred from capital-equipment industries to newly established or enlarged consumption-goods factories will be producing more goods for consumption; but their wages may not have been raised much on transfer. If wages do not rise in proportion to the new productive capacity, and if consumption therefore tends to lag, a surplus of goods will accumulate. As soon as supply is shown to have clearly outrun demand, the expansion of consumption-goods industries will stop; they will absorb no more men from capital-equipment industries.

From this stage onwards, since capital replacement is bound to decline to a point much below the peak, there will be steadily increasing unemployment — unless special action is taken. Men discharged from capital-equipment trades will remain out of work. Their loss of wages will aggravate the shrinkage of demand and cause still more unemployment. The multiplier will be at work in reverse. And the growth of unemployment will continue till it is checked by schemes or influences which reinvestigate consumption.

*The Stop-Gap Period*

All policies designed to meet this threat will proceed from one basic fact. The ultimate remedy is the transfer of workers from capital-equipment industries — these having been over-expanded relatively to the rest of industry. However, considerable time may be required to complete the transfer. Delays in drafting men into consumption-goods industries may arise from a number of causes: lack of employment capacity in the consumption-goods industries themselves; low wages in these industries; unwillingness of labour to be re-trained or rehoused; absence of housing accommodation; inadequacy of training

facilities. Where physical or psychological barriers obstruct consumers' incomes will fail. Instead of drawing workers into consumption-goods industries it will end by undermining the system of control over prices. What is needed, therefore, is a scheme for disintegrating the barriers. And in order to give time for the development of such a scheme, a number of stop-gap or reserve measures should be introduced to employ the surplus labour of capital-equipment trades.

Action in the fourth phase would thus consist chiefly in launching all available reserve schemes and in elaborating long-period plans for the transfer of workers to consumption-goods industries.

### *Reserve Schemes and Contracts*

Fortunately most of the schemes held in suspense by the Government with the connivance of public utilities will afford work for men in capital-equipment trades. They will include bridge-making, railway repairs, the construction of rolling stock, water-supply extension, electrical development, steel and concrete building, and possibly harbour and dock repair. Thus miners, engineers and iron and steel workers will be especially in demand.

To serve their specific purpose, these measures would need to be prepared as actual contracts. A new legal form is required, specially worded to deal with contracts held in abeyance. For unless the reserve schemes have been prepared up to the point at which the responsible authorities have specified their exact needs and come to terms with contractors, there will be months of delay when the moment arrives for launching the schemes. During these months the vicious circles of depression may make devastating progress.

Furthermore, in order that action may be timely the Planning Authority will need statistics indicating the precise moment for turning on the deluge of public contracts. Two indexes are suggested. The first is that of *private orders received by capital-equipment industries*, especially by Engineering, Iron and Steel, and Shipbuilding. When private demand for equipment falls it may fall suddenly; and an index of the volume of private orders coming to these industries will show exactly when the Planning Authority should bring up its strongest reinforcement of public orders.

There may be a risk, if it is true, of a false alarm from this index.

During a period as precariously balanced as the "third phase", fluctuations in the demand for equipment may arise purely as the result of political uncertainty or general apprehension in the market. The Planning Authority would need to harden itself against such phenomena. To enable it to ignore any momentary slump, the Authority might prepare a subsidiary index showing the *productive capacity of consumption-goods industries*. The base year would be 1939 so that a continuous comparison could be made between post-war and pre-war capacity. It might reasonably be assumed, then, that any setback in replacement would be only temporary so long as the index showed that pre-war capacity had not been restored.

It is possible, of course, that a reaction might set in before replacement was complete and that it might reach such dimensions that the Planning Authority could not avoid intervening at once. In this event the first step would be to expand consuming power. The repayment of credits from war taxation would doubtless fully meet the need. But if even this should fail, the Authority might resort to reserve schemes and then to the series of far-reaching measures which must in any case be applied in the fifth and permanent phase.

The reason for postponing State action till the replacement boom has run its course under the impulse of private effort alone is that the greater the spontaneous expansion of private enterprise, the less extensive, lavish and costly will the Government's own programme need to be. The Government is technically capable of restoring trade to full strength at any time, but only at the cost of invading private industry's realm and financing its own action by special expedients.

### *War Credits*

The refund of war credits will no doubt be made during the "fourth phase", and will strongly reinforce the reserve schemes. In an early Finance Act after the war the Government will need to secure discretionary power to repay tax credits at whatever moment it deems suitable. With this legal sanction it will be able to distribute an immense mass of purchasing power at brief notice. If the money is issued at the beginning of the fourth phase it will strongly sustain consumption at a time when, as noted, the chief need is to expand consumption-goods trades and drain away labour from factories producing equipment.

It is essential once again, however, to distinguish between stop-gap schemes and permanent, progressive measures which can form part of a limitless national plan. The refund of war credits, immensely valuable though it be, is but a temporary device. To large numbers of men and women the sum repaid will come as a windfall and no doubt they will dispose of it — as is desired — within a few months. The industries likely to benefit most are the motor industry, building, furnishing, radio, clothing and transport. But when the money has been spent these industries will have to look elsewhere for their markets. Possibly some of the money will be used for business extension, and in this event productive capacity will rise and will call for a still greater subsequent increase in the power to consume. Six months after the redemption of the credits the effect on consumption will have been almost wholly dissipated. The emergency measure will have served its purpose if it is regarded as no more than an emergency measure. It will have gained time for the introduction of continuous comprehensive schemes for enlarging final demand.

### THE FIFTH PHASE

Preparations for the fifth and permanent phase will be in train during the whole of the earlier period covered by the reserve schemes. Under their protection the national system of planning will be evolved in its final form, and will absorb or supplant all measures that have gone before. The central principles on which the plan is to be built may be recalled in order to show their application at this ultimate stage.

(1) The main economic concern is consuming power. Financial measures are required for enabling the Planning Authority to raise the incomes of consumers continuously to a level at which they can buy all that the country's entire labour force can produce.

(2) Owing to the general tendency of firms to raise prices when demand is avid, no system of planning under private enterprise can be made truly forceful without the safeguard of a rigid upper limit to prices. The second feature of the plan is therefore the development of comprehensive machinery for fixing maximum prices.

(3) Even with this strengthening of the plan the whole labour force may not be drawn into employment unless special schemes are adopted for re-training and transferring workers, or for re-expanding per-

manently the trades from which they have been discharged. Further, planning will become smooth in proportion as an even flow of investment by the large capital-using industries can be maintained; and special schemes for the planning of investment and replacement are desirable.

Of these points, the problem of price-fixing calls for least discussion, and will be treated first.

### *An Upper Limit to Prices*

However elaborate may be the means adopted by the Board of

Trade and the various industries for fixing maximum prices, it will be difficult to make the combined schemes comprehensive without the genuine co-operation of employers at every point in the productive chain from the extraction of raw material to the final sale. In order to

enlist their goodwill, and to give a binding clarity to all undertakings in respect of prices, it has been suggested that the Industrial and Economic Parliament should promote a Gentlemen's Agreement whereby all producers throughout the country would agree to avoid

and resist any raising of prices as from a given date, except where an increase was publicly approved by the Price-Fixing Board. The time for such an Agreement would be in the fifth phase when abnormal

trade disturbances would no longer be expected. Regional planning organisation would be used for securing the collaboration of firms in price-fixing schemes and in the enforcement of the maximum prices approved (see pp. 320-1, 330).

### *Consuming Power*

The new planning system, being introduced at a time when a wave

of production was rising to a crest and threatening to flood the market, would need to provide for a large and lasting growth in consuming power. There would be value in determining as accurately as possible the amount of the necessary increase.

In theory, it is true, the scheme would work without any forecast of the extent of the financial effort required. A simple rule to follow might be, "Press on with the expansion of consumers' incomes till the desired result is gained". So long as prices remain fixed it will be

safe to raise consuming power to any limit, and the process can be continued till the labour surplus is shown to have been fully absorbed.



In practice, however, all measures are introduced through the Budget, and they therefore must be precise, quantitative and capable of forming a basis for debate. Moreover, the sums involved will be immense. And the plan will fail unless all leaders realise the magnitude of the programme.

The beginning, in making the estimate, is to measure existing consuming power. For reasons to be given, it will be helpful to ascertain not only the consuming power of the country as a whole but also the share of it attributable to various distinct income-groups. A plain definition of an individual's consuming power is : "that part of his income which he intends to devote to consumption". Hence, in order to discover the aggregate consuming power of the members of any income group, it will be necessary to estimate their aggregate income, then, by the process of sampling, to learn what proportion they habitually spend on consumption. (Error may arise in assuming that past habit and present intention are the same, but the error will be slight.)

A useful index might be compiled by thus estimating separately the consuming power of all sections of the community, divisions into groups being made on the basis of levels of income, and each group being subdivided according to ages, sex and status. Dependents of the State would appear separately from independent wage-earners. Young people, unmarried adults, and married adults with and without children would be segregated into their several sub-groups. By combining all results, an estimate of the consuming power of the whole community could be made.

One purpose of these manifold divisions is to enable the Planning Authority to forecast the effect of different methods of raising the incomes of consumers. For instance, the raising of old-age pensions would not have the same effect as the repayment of wartime credits. The reduction of rates would yield a different result from the increase of family allowances. If the statistics of consuming power were detailed enough, the effect of a change in income through most Government channels could be foretold with some accuracy. Furthermore, through samples of family budgets or of the personal outlay of each group, it could be learnt not only what proportion of any increase of income would be spent on consumption, but also what articles would be chiefly bought. This information would be vitally

important for showing the Planning Authority which industries would have to be expanded whenever an increase in consuming power was intended. Supplementary information could be gained from a monthly index of retailers' sales. By combining this index with an annual estimate, derived from a special census, of *total* retailers' sales for some selected month, it would be possible to show the approximate total of retailers' sales in any subsequent month. This would form a useful check to the estimate of consuming power.

The next step towards discovering the necessary extent of the Government's budgetary action is to forecast the *probable increase in consumption goods* which will result from transferring the labour surplus to consumption-goods industries. The situation assumed is that most of this labour surplus is temporarily engaged on reserve schemes. The remainder will still be in capital-equipment trades, if these have not yet contracted to their ultimate or planned level (see pp. 137-40). In any event, it will be necessary to calculate the aggregate labour surplus arising from all sources; for this will need to be transferred wholly to consumption-goods trades.

Let it be assumed that the surplus to be transferred is 10 per cent. of the numbers already employed in industries making consumption goods. To enlarge employment in these industries by 10 per cent. might lead to a roughly proportionate increase in their output. Hence it might be deduced that the necessary rise in consuming power would likewise be 10 per cent. But there is another important factor to consider. The consuming power created through the repayment of war credits, a purely transitional device, would need to be replaced from some permanent source. Thus, if the credits were being redeemed at a rate such that the consuming power they yielded was, say, 5 per cent. of the national total, this 5 per cent. would have to be generated by other means as soon as the credits had been exhausted.

An aggregate of 15 per cent. may, for illustration, be taken as the proportion of consuming power to be supplied from a permanent source as from the beginning of the fifth phase. If the measurement of consuming power at that time showed it to be in the neighbourhood of £6000 million per annum, a long-term programme for producing an additional £900 million would be necessary.

Clearly, it would not be the State's duty to create the whole of this amount. Advancing productivity is usually accompanied by some rise in wages, of which a high proportion is spent on consumption, and by enlarged profits, which lead to at least some added consumption. Hence consuming power would tend to rise steadily through industrial channels, though not as rapidly as productive power. There would be a gap, and it would be the State's duty to fill the gap. How large it is likely to be cannot be computed accurately. But if the State begins by regarding about one-half as its share, that will produce action of the proper order of magnitude. This action can be intensified or lessened later according to an index of employment.

The raising of an additional £450 million annually by methods which do not themselves diminish consumption is an operation which most Chancellors will find imposing in peacetime. Much of the burden will fall on the Planned Budget, but the Current Budget might be adjusted to assume a share.

### *The Current Budget*

As soon as "planning for full employment" becomes the overriding aim, taxation is no longer regarded from the point of view either of the Chancellor's convenience or of social equity: the one concern in mind is, What will make the system work? If it is agreed that the system is likely to work in proportion as consumption is maintained, the corollary for the Current Budget is obvious. Progressively, as the various indexes prove the need for a rise in consuming power, the Current Budget will reveal a decline in consumption taxes and a rise in all others. Duties might remain on certain types of consumption the discouragement of which would be a kindness to the consumer. But taxes on tea, sugar, other imported goods and manufactures, together with the general purchase tax, would be steadily removed. As compensation, all incomes above the average would be a fair subject for direct taxation, while death duties might be substantially raised.

### *The Planned Budget*

Though the Current Budget alone it would probably not be wise, however, to attempt to generate more than a small proportion — a third at the most — of the £450 million of consuming power. The rest would fall on the Planned Budget.

Since, as noted, an accurate forecast of the amount required through the Planned Budget will be rendered difficult by the need for taking account of wage changes in industry, the sound policy will be to use this Budget for creating a reserve fund large enough to meet any call. Such a reserve fund would already exist if a Capital Tax had been imposed in the third phase and had not been exhausted in the fourth by the payment of war credits. It would be desirable in any case to replenish the fund by means of a Capital Tax adopted every two or three years. The average level of the reserve might appropriately be about £,500-£,1000 million. This money would be used for financing whatever increase in consuming power was needed in any year to meet the deficiency left by other methods.

Part of the desired £,450 million of additional consuming power could be created through Bank loans. Following the principles suggested earlier, the Government might confine the method of Bank-borrowing to the financing of public investment. That is, it might use Bank advances exclusively for such purposes as housing, the construction of civic buildings and public utility plant, and the installation of State Industries. Expenditure of this kind would indirectly increase consumption by an amount that could be forejudged with fair accuracy.

### *The Use of the Funds*

The State is now assumed to be possessed of resources sufficient for enlarging consumption up to the point at which all surplus labour will be absorbed into consumption-goods industries. The question remains, What kind of consumption is to be favoured?

The decision, once again, depends on the State's philosophy of values. If individual choice is held to be the highest value, the State will simply increase money incomes so that each citizen may independently decide what shall be his extra consumption. The State will still be responsible for deciding what stratum of society to favour. Alternatively, a selection may be made from such values or aids to value as food, health, living room, leisure and travel, art and architecture, education and library facilities, provision for the young and the aged, entertainment, exercise, and the preservation of ancient monuments, open country, wild life and beauty; and the funds may be used for furthering these ends through direct services or through grants.

### *Special Schemes*

Substantially all values will be promoted by the expenditure of a sum as large as £450 million, especially if it is used for augmenting money incomes. Whatever the method of expenditure, the Planning Authority will be able to determine approximately the amount of expansion involved for each consumption-goods industry. If the money is distributed in the form of additions to personal income — say, through health benefits, pensions, holiday grants and the like — it should be possible to measure, with the aid of the subdivided index of consuming power and samples of family budgets, the total effect on each consumption-goods industry. If the money is used directly, as in the case of subsidies for housing, travel, entertainment and food, or the provision of free meals and clothing, the effect on each industry concerned can be still more readily assessed. The Government will in either case be able to foresee in what direction expansion will be necessary and what barriers, if any, are likely to be met.

In gaining the assent of Parliament to its programme the Government would seek permission to spend up to a certain maximum limit which might exceed the estimated £450 million. Thereafter it would not in fact spend more than was required to abolish unemployment. The unemployment index would be its permanent guide.

Most consumption-goods industries will spontaneously expand if the demand for their products is enlarged. But it has been seen that this does not always follow. The fixed upper limit to prices will deter many employers from engaging untrained men. And if the demand becomes strong enough to cause scarcity, price agreements may be evaded with the connivance of customers. A concealed rise in prices may be the net result rather than the absorption of more labour. The chief difficulty confronting expansion in the fifth phase, however, is that private manufacturers cannot be expected to undertake abnormal extension *in anticipation* of a promised increase in demand, whatever assurances the Government may give, for the Government cannot even guarantee its own continued existence. With memories of 1921 still vivid, employers will be more than usually cautious once they have recovered their 1939 level of output.

For these and other reasons it is imperative that the State should itself take part directly in the desired expansion. The scheme here

proposed is the formation of extensive State Industries, or special works designed to produce certain types of consumption goods which, according to the Government's forecasts and estimates, will be in exceptional demand as a result of its £450 million plan.

### *State Industries*

The new plants would be constructed and organised in such a way as to absorb workers from capital-equipment trades, train them, and form them into complete industrial units with clerical staffs, research departments and managements.

In every town with a population of more than ten thousand there would be a branch of these industries, comprising a wide range of manufactures; and in large towns there would be one branch for every hundred thousand inhabitants. In country districts, relatively small branches would be formed and spaced at intervals such that no worker would need to travel more than ten miles to the nearest branch. No applicant would be turned away from these State Industries. Each employee would receive a basic wage equal to unemployment benefit; and in addition he would be allowed to buy the products made by himself and his colleagues, much of the price being payable in hour-notes representing the number of hours worked. Meanwhile he would be undergoing training for a new trade. He would be allowed to leave for employment in private industry at any time.

The State Industries would thus form a "closed system" for the mutual exchange of goods by trainees. There would be no competition with private industry. And there would be no intention to grow at its expense, for all works would be so designed that private capitalists might step in and buy whatever sections seemed to them worth buying.

Concurrently with this scheme, State plans would be developed for increasing consumers' demand at a rate such that competitive industry would be facing a permanently strengthening market. As private trade grew, it would reabsorb labour from the State Industries; and these would therefore dwindle in size after their first expansion. Nevertheless, the State Industries are advocated as a permanent feature of the planning system and as the means whereby the Government would unfailingly guarantee work to every individual demanding it. There is always a large fringe of the labour force continuously

rejected by private industry. This fringe must be employed by any national plan worthy of the name. Accordingly, it is suggested that every branch of the State Industries, which would be controlled by the Ministry of Labour, should contain sections organised specially for employing disabled men, people who suffer in health, and all who for any reason cannot pass the tests imposed by private firms.

In order to make the scheme comprehensive there would be linked together State factories, State farms, State seaboard communities and State mining communities, all exchanging products as part of the general system of State Industries (see pp. 323-7).

Once these industries had been established, the numbers seeking work in them would be a further practical guide to Government policy. An exceptional rush of applicants would be the signal for emergency measures for stimulating general consumption.

### *Schemes of Investment Control*

Various kinds of Special Scheme mentioned in the last chapter could be set in motion immediately after the Armistice, being thereafter continuously developed through all phases of reconstruction. Further reference to these schemes will not be necessary at this stage. But there is one type which could not be fully perfected till the fifth phase, namely, that concerned with investment control. During the replacement boom the fastest pace of investment will be the best. Immediately afterwards the subsidence will be the greatest. It will be only in the fifth phase, when the settling down process is well advanced, that the planning of investment over a term of years can be comprehensively undertaken.

The factor which it is important to control is not merely the quantity of new investment (or the net addition to real capital); it is the much larger quantity comprising new investment, replacement and maintenance. Replacement and maintenance probably give rise to more employment in capital-equipment industries than is afforded by new investment. And stability of employment in these industries is the aim in view.

Stable employment in Shipbuilding, for example, depends more on the rate of replacement of ships than on the increase of shipping fleets. In Road and Rail Transport, maintenance probably yields more orders to Engineering, Quarrying and other investment-goods industries

than does the building of new roads and lines. Since replacement and maintenance are liable to fluctuate widely, it is important to include them in all plans for stabilising "investment".

The control of investment cannot be achieved through a single, simple programme; it calls rather for the aggregating of a large number of separate schemes, each appropriate to the particular industry concerned. The method of approach is to examine every industry in turn as a unique structure, and to devise a method of investment control suited to that structure.

Nationalisation, it was said, provides the most direct means of regulating investment. This method is recommended especially for land. The State as landowner could adopt an unvarying annual programme of capital development in respect of reclamation, drainage, fencing, farm roads and buildings, afforestation, the destruction of pests and the general reconditioning of the soil. Likewise, through its ownership of royalties the State will be able to govern in some measure the rate of capital expansion in the mining of coal and metals.

Other industries recommended for complete national administration in order to gain the advantages of investment control are Electricity Supply, Rail Transport, Road Transport (long distance), and Liner Transport in ocean and coastal shipping. These industries make heavy purchases of capital equipment and the stabilisation of their demand would greatly benefit the trades concerned.

Municipal ownership gives an equally firm control over investment if the Planning Authority is able to counteract any tendency to disturbance of investment through changes in the political leadership of local Councils. Financial inducements might be offered by the Treasury for the adoption of a long-term programme of outlay on roads, housing and water-supply and on such public utilities as are owned by County or Borough Councils.

Similar long-period programmes of investment might be drawn up for all other public utilities such as water, local transport and gas supply, where these are not owned by the Local Authority. It would not be necessary to stabilise the separate programme of each utility, but only the aggregate programmes of all combined. Considerable fluctuations might thus be allowed within each group so long as they were mutually offsetting.

Agreements with banks, other finance houses, insurance companies,



chain stores and mammoth firms might lead to the stabilising of their aggregate programmes of replacement and repair, though it would be difficult to govern their rate of expansion.

Investment in housing may approach its peak in the fourth year after the war. By that time it should be possible to give final definition to the remainder of a ten-year programme. Through a comparison of future needs and available resources it could be decided what rate of national investment in houses was desirable in each subsequent year. The rate selected might be maintained by various controls, of which the chief are : agreement with Local Authorities respecting the size of local housing schemes ; variable subsidies ; building loans supplied at special rates ; changes in the general rate of interest ; and direct contracts issued or undertaken by a State Department of Architecture and Construction (see Chapter XVII on Building).

As regards investment in building machinery and plant by the Building Industry itself, there appears to be no direct means whereby the State can exert influence since the number of firms involved is exceptionally large. In the case of an industry composed of many small-scale units there is, however, an indirect procedure consisting in the attempt, first, to maintain a steady expansion of the industry's trade and, secondly, to stabilise *expectations*. If the whole of an industry can be led to expect unvarying conditions of growth, the larger the number of units engaged, the more surely will the law of averages lead to a steady grand total of investment. The stabilising of expectations in Building should be relatively easy in view of the large role of the State and Local Authorities in determining the volume of contracts.

A similar method would serve best in the case of other small-unit industries such as Wool, Clothing, Food, Printing, and the Boot and Shoe and Leather industries. The guarantee of expanding markets, assured through the controlled expansion of consuming power, would undoubtedly lead to continuous replacement and development in all consumption-goods trades. The risk after a prolonged period of good trade would be cumulative over-capitalisation. A partial safeguard would be the licensing of firms for the production of specified goods. Licensing is specially recommended for use in the Cotton industry. The scheme proposed for this branch of textiles involves the licensing of certain firms for export under the aegis of an Export Control, and the licensing of others under an Inland Control. The nationalisation of

a fringe of the industry, as a means of stabilising the whole, is suggested. This, in turn, would permit of a directly controlled rate of replacement in the nationalised fringe.

As regards Shipping, Shipbuilding and Marine Engineering, proposals for stabilising investment in ships have already been summarised. (For further development, see Chapter XI.)

Some approach to an agreed rate of replacement in the Iron and Steel industry might be possible through the British Iron and Steel Federation. The task of attaining a smooth investment curve in this industry would be much simplified if the proposal to form a European Steel Trust and a European Pig-Iron Trust were adopted. Once these bodies were in being, the rate of expansion of each national branch would be a matter for agreement, and decisions reached would, no doubt, cover several years.

The relevant industrial chapters in Part III submit the reasoning which underlies the above schemes. Here, in conclusion, it should be said that the total effect desired from investment control is *not* the compensating of cycles of trade. Investment planning does not play the role of reserve public works. Indeed, in the system of planning recommended here there is no place at all, after the fourth phase, for compensatory public works. To assume the trade cycle, and the need for a counterbalancing activity, is to assume defeat in advance.

The assumption here is that, during the fifth and permanent phase, "control points" will be determined for total investment by each of the main industries and utilities. These control points will be related to intended consumption, and once fixed they will act as guide to the investment-controlling organisation in each industry. They will tend to yield a steady curve of employment in all capital-equipment industries year by year. Labour not employed in these industries will be entirely drained away into consumption-goods trades, partly through the general expansion of consuming power supported by special schemes for extending consumption-goods industries, and partly through the creation of State Industries.

The above threefold scheme, depending primarily on a steady advance in consumers' incomes, and rendered both safe and powerful through the widespread fixing of maximum prices, would be in the Planning Authority's mind as the ultimate aim in view as from the

first day of peace. The longer it is in operation the more stable will it become, and the easier, technically, will be the task of control. After the third year of peace, the system will begin to settle into a fairly firm mould. Violent political upheavals might, of course, overturn the plan at any time and introduce a completely new set of conditions from which rebuilding would proceed afresh. If such uncertainties be ignored, however, the fifth phase as thus described would stretch indefinitely into the future.

## *The Political System*

### CHAPTER IX

THE development of a national economic plan clearly demands a political setting in which there is absolute guarantee of continuity. One most searching test of the British political system after the war will be whether it can yield that high degree of stability which is essential to a programme spanning a number of years. If it fails in this, politics will once more decline into opportunism, and Governments will be destroyed by their own planlessness. In the end, since people will be in no mood to accept failure, the system itself may be violently rejected.

After the last war the British system did not in general safeguard continuity. The Coalition Government, which was returned with overwhelming support at the end of 1918, gradually lost strength and finally broke in 1922. A Conservative Government succeeded it, but remained in power only until the end of 1923. Thereafter the first Labour Government in British history assumed office. It lacked an absolute majority, however, and after ten months' uneasy partnership with the Liberals, it was dismissed. The Conservative Party then reigned until 1929, the chief features marking its five-year period being the return to the gold standard in 1925, the General Strike of 1926, and gradual recovery of world trade from about 1927. In 1929 the Labour Party once more formed the Government, but without a clear majority. Its return coincided with the beginning of the great world depression, and in two years it collapsed. In sum, following the last war there were five changes of Government in thirteen years. A repetition of this instability after the present war will utterly destroy any hope of consistent planning, unless, indeed, it becomes possible to transfer a large share of responsibility for planning to some permanent authority outside Parliament.

The train of political events after this war can scarcely be forecast with confidence. Nevertheless it seems probable that all Parties, at least in the beginning, will insist on the need for a far-reaching reconstruction plan. The Coalition may be prolonged because there is

common recognition that the great strains of transition to a peacetime economy can be borne only by a united people. And in the favourable atmosphere of post-war relief and determination to rebuild, the Government may be able to lay some part of the foundation of a long-term plan.

However, there is no assurance that the Coalition itself will last. Its disintegration may come through both good and bad causes. On the one hand, most human passions tend to find political expression, and the disruption of a formerly united Government may result purely from the contrariness and self-assertiveness of ambitious groups. Policies are rarely strong enough to unite where personalities violently conflict. On the other hand, the Coalition may give way to the Party system because genuine differences of opinion arise on vital issues.

The Party system has strong roots. It is the direct outgrowth, in fact, of that very freedom for which Great Britain now fights: the freedom to have, to express and to promote an opinion. Politically this freedom signifies the right to form a Party; for a political faith has little meaning if there is no right to implement it. It follows that in any country which is thus free separate Parties will emerge whenever there is a fundamental cleavage of opinion. For instance, if one section holds with profound conviction that the ideal of government is State-ownership of all the means of production, while another is State-ownership of all the means of production, while another regards this with abhorrence, a cleavage of opinion exists which is by no means frivolous. It will sever the country politically unless some still more fundamental consideration — self-preservation for example — drives all Parties together.

Even the demand for a national plan may itself cause division. Agreement on the urgency of planning does not imply agreement on the main principles of the plan. Indeed, one Party's conception of economic planning may be so far removed from that of another that each feels justified in concentrating first on achieving power in order to promote an adequate plan. "Party first" and "nation first" may seem to connote the same thing; and with the best intentions on all sides the nation may be disunited.

Let it be said, then, that there are many reasonable grounds for reverting to the traditional Party system, and that, if it is restored, continuity of Government will not be more assured than it was in the past. In this event no Government will be able to plan securely unless

it can devise new comprehensive measures for safeguarding all its long-term economic policies. Although continuity of *political direction* may not be possible, there may yet be the means of preserving continuity of *economic policy*. On this prospect would seem to rest all hope of the survival of the democratic system, once it has assumed again the form of government by Party.

Two devices will be suggested here for preserving this essential economic continuity. One relates to the creation of a permanent All-Party Planning Conference within the Houses of Parliament. The other implies the establishment of a permanent, widely representative, advisory planning organisation outside Parliament.

The first measure — the creation of an All-Party Planning Conference in Parliament — is manifestly a logical step for the Coalition Government to take in order to safeguard its programme. A wise Government will prepare for its own downfall. If it has a plan which will require some years to mature, its first thought will be how to forestall the possible destruction of the plan through political strife. Inevitably the Government will try to draw its opponents into agreement, and then establish some permanent body to confirm and defend the agreed principle in all future times.

A Coalition Government is fortunate in having every important potential opponent within its ranks. In itself it is an All-Party Conference. But it is not permanent. And in order to shield its plan against future emergencies, it might set up some fairly small body, comprising members of all Parties, and give it a permanent constitution as a Planning Conference.

The function of this permanent Conference would be precisely to keep watch over continuity. At the outset, it might assist in laying down the basic principles of national planning. As was seen earlier, the most difficult time for planning will probably come two or three years after the end of the war. It is when the replacement boom suddenly breaks that the need arises for swift, incisive measures, pre-planned and pre-agreed. The task of the Planning Conference would be to direct all minds upon that critical point, and to secure in advance the general acceptance both of immediate schemes for meeting the crisis, and of a combination of further measures for developing a continuous economic plan.

This responsibility the Conference would share with another

branch of planning organisation about to be discussed, and the details of its work would depend on the association formed with this other branch. In general, however, the function of the Conference would be to take advantage of the permanence of its constitution to hold Parliament to the unvarying principles of the economic plan. It would be anti-Party in the sense that it would seek to destroy all effects of the Party system adverse to scientific policy. Its own membership might be on the basis of proportional representation, but it would not allow this to create divisions within its organisation. Whips would be excluded. Members would vote freely according to personal conviction and they would be appointed individually as experts in economic, industrial, financial, cultural or other questions bearing on planning. Membership would be continuous so long as the member retained his seat, subject only to the reduction of a Party's representation due to its decline in strength at an Election.

Once such a Conference had become thoroughly entrenched it would not easily be destroyed ; and it would at all times guarantee at least some defence against the excesses of political warfare.

### *An Industrial and Economic Parliament*

A Government which is determined to give its plan a strong chance of survival will be constrained to approach not only political opponents but also the chief ultimate support, namely, industry. An economic plan is a vast project involving industry and finance as chief agents ; and more than their co-operation is required. The economic power of the Bank of England alone has at times<sup>1</sup> exceeded that exercised by any peacetime Government. Those who in effect determine the character of the monetary standard, govern interest rates and control the general conditions of borrowing, thereby influencing the flow of money and the amount of investment, are much more truly the sovereign power in economic matters than the Crown, Cabinet and Parliament. And this condition is likely to persist, however radically the political structure may change. To nationalise every financial institution does not alter the position effectively unless the Chancellor of the Exchequer is so technically skilled that he can rule, and overrule if necessary, the

<sup>1</sup> The centre of gravity of real influence may have moved between the Bank of England and the permanent officials of the Treasury ; but it has rarely resided in the Chancellor of the Exchequer or any other member of the Government since the last war.

entire financial system. Only those truly command who have the knowledge, the experience and the practical control of daily operations. Common wisdom would seem to require that such people should be given responsibility and initiative proportionate to their power, and should be invited to align their contributions with other parts of the general plan, and to explain openly their policy to the public.

What is true of Banking is true in less spectacular degree of every other industry in the country. Each has economic power : the power to employ, invest, expand or contract output, fix prices and distribute income. An economic plan involves all these things ; hence it seems only reasonable that the representatives of industry should be among the chief planners. The fact that they have never spontaneously offered their combined services is not relevant. One precedent shows that when the invitation is open, industrial leaders respond at once. One of the first acts of the present Minister of Labour was to ask the British Employers' Confederation and the Trades Union Congress to nominate members for a National Joint Advisory Council to advise him on wartime social and labour measures. The Council was immediately formed.

Wider problems demand the same kind of action on a wider base. The proposed Industrial and Economic Parliament would be an advisory body drawn from all spheres of industry and the professions for initiating and developing proposals for a national plan. Although advisory, it would be empowered to put forward suggestions affecting the system of planning in general, as well as to recommend measures for dealing with specific problems and industries. Whereas the Lords and Commons deliberate on the whole sphere of national administration and international policy, the Industrial and Economic Parliament would confer only on matters closely related to industry and national economy. Within this field it would have complete liberty to explore, and to commend its findings.

Its constitution might suitably include three main elements : Expert Committees, each dealing with a defined section of enquiry ; a Co-ordinating Council, responsible both for devising a general national plan and for harmonising the parts arising from the work of the Expert Committees ; and a general Economic Assembly which would comprise all members entitled to vote.

Such a constitution would provide a double check on the work of



the Expert Committees. Their proposals would first be submitted to the Co-ordinating Council, which would adjust them in accordance with the general plan. The adjusted proposals would then be examined by the Economic Assembly, which might approve them, revise them further, or restore them to their former state following representations by the responsible Expert Committee.

Thereafter the recommendations as approved by the Assembly would be transmitted to His Majesty's Government.

Co-operation between the Houses of Parliament and the Industrial and Economic Parliament might be most satisfactorily assured by the inclusion of the whole of the parliamentary All-Party Planning Conference in the Industrial and Economic Parliament. The Conference members, numbering, say, fifty members of Parliament, would become full voting members of the Economic Assembly with the title to be elected on its Expert Committees and Co-ordinating Council. In addition, they would meet as a separate Conference whenever they wished to act independently or determine the method of promoting the planning measures in the House of Commons.

The membership of the Industrial and Economic Parliament would be composed mainly of employers and workers drawn in equal numbers from the main industries and professions, as well as from banking, insurance and commerce. Press representatives would have a prominent role both in contributing to discussions, enquiries and programmes, and in advocating schemes publicly. Co-operative Societies, Building Societies and other bodies representing consumers and investors might be included to voice their special concerns.

Such an organisation would be too unwieldy, however, unless it were provided with a human spear-point. Every democracy has a certain element of autocracy at the centre, otherwise it will not work. Proposals for an Industrial Parliament have been made before, but they have come to nothing, either because it was never made clear exactly what the Parliament was to do, or because no individual was inspired and empowered to give the lead. Thus in order to bring the Industrial and Economic Parliament to life, a permanent Secretary-General will be necessary who will also be the National Planning Commissioner. His duties will be considerable. The first and main responsibility will be to make sure that all parts of the plan submitted by the Parliament cohere. The plan must reside in the Commissioner's mind as a

concerted whole. From each of his Committees he will derive a part. The Financial Committee will advise mainly on the Planned Budget. The National Development Committee will prepare both special and general schemes to be financed through the Planned Budget. For each industry there will be a special Committee whose function it is to recommend measures of co-operation between the Government and the industry. A General Industrial Committee would concern itself with plans for the fixing of prices, and for all other projects affecting the whole sphere of industry. The co-ordination of the work of all such Committees would call for constant attention by one active mind with disinterested judgment. In bringing judgment to bear the Commissioner would at all times be in contact with the Co-ordinating Council; nevertheless, no matter how many positive minds there might be in the Council, the constructiveness of its work would depend primarily on the strength and reach of the master mind at the centre.

The Commissioner would further be responsible for the co-ordination of plans adopted by the Regional Planning Commissioners (see Part IV). It would be through the regional Authorities that the National Commissioner would be able to develop special schemes for absorbing the local unemployed. In addition, the regional Authorities would be his intermediaries for making contact with local industries and enlisting their support and advice in the development of the industrial features of the plan.

At the conclusion of all such work the National Planning Commissioner would be not more than adviser to His Majesty's Government. But just as the advice of the Bank of England on purely banking matters has been law to the Government, so the advice of one who derives his recommendations from a body representing the whole of industry, including both employers and workers, together with the delegates of banking institutions, the Press, professions, and consumers' and investors' associations, is likely to carry substantial weight. Once the fundamental planning principles approved by this body have been accepted by any Government it will be difficult indeed for a subsequent Government to discard them.

Thus, for the purpose of securing continuity, a non-Party, fully representative Industrial and Economic Parliament would seem to be as practical an instrument as could be contrived. If it were successful, it might save democracy. The right to an opinion — the basis of

democracy — is a much treasured right of the British people ; but every right calls for a corresponding discipline both in the individual and in the political expression of the right. Politically the right to an opinion leads to the Party system. The countervailing discipline will also be expressed in some political form. The precise form, which must at least serve the same purposes as the two devices suggested here, is no doubt less important than the inner coercion underlying it.

### *The National Will*

Even though there may exist the most perfect organisation, together with the genuine desire for continuity and co-operation, it does not follow necessarily that planning will be effective. There remains the question of readiness to meet cost. In this field all is imponderable. It can never be known with certainty how much common sacrifice will be necessary to make a planned economy practicable. *Prima facie*, since a plan is designed to make the entire system work smoothly, all people may benefit without exception. But this condition may be gained only through some initial giving or casting of bread upon the waters. None can say how much bread should be cast. At one extreme, there are theories of money which seem to show that no personal sacrifice whatever by any individual is needed, and that a plan can be fully matured by currency manipulation. At the other extreme, certain dogmas proclaim that the one hope of effective planning rests in State-ownership of all industry : and this implies expropriation, or 100 per cent. sacrifice of industrial property. There is no proof for either view, and there is no means of justifying any opinion between the two. Nevertheless, it seems reasonable to suggest that any Government which is faced with the task of planning under Private Enterprise will feel most adequately equipped against emergency if it is supported by a people fully acknowledging the need for swift changes in taxation as a means of planning.

Readiness for taxation at least defeats the opposite disastrous tendency. The most disruptive features of the Party system have largely arisen in the past out of the battle for the national Exchequer. When each Party is convinced that the deep design of the other is to command the Chancellor's position in order to thrust taxation on its opponents, the strife grows tense. In such conditions, the rule is "Party first" invariably. Elections become debased. Insincere

promises are added to the bribe of tax relief. The Election scare becomes the main weapon. Education is supplanted by misrepresentation and by the obscuring of issues till few know clearly why they are recording a vote. In Parliament, sound measures are thwarted and frustration is an acknowledged practice. "It is the object of the Opposition in the party game", writes Lord Kennet in his dispassionate survey of the peacetime system, "to see that the Government makes as little progress as possible with its legislative programme, and a good way to hinder it is to spend as much time as possible on the routine financial business of the session."<sup>1</sup> Such conditions yield a setting hostile to any form of scientific economic government or long-term project.

The war produced an amazing change. Men became greedy for taxation. The one complaint against the first annual war Budget — about 50 per cent. heavier than a normal peacetime Budget — was that it was too light. Large numbers later supplemented it with voluntary gifts. The reason for the change seems to have been the discovery of a purpose. A similar discovery will be an immediate, imperative need after the Armistice; for any tendency to slip back into the old habit of haggling over the national purse will banish all hope of a planned economy. But there seems no need for this. People everywhere are not only becoming aware, but are proclaiming openly, that the new post-war structure of society will have to be built on wholly new foundations. Perhaps few see for themselves the nature of those foundations, but they are anxious to be prompted. One element in the new outlook, it seems, must be a revolutionary change in the attitude to taxation. The war has in fact brought this change, and the need now is to preserve it for peacetime ends. Possibly one method of helping to preserve it would be to launch a new Nation-before-Party movement, in which the members would be committed corporately to the destruction of all negative and damaging aspects of the Party system, while accepting individually the undertaking never to resist taxation against their own incomes for social uses.

<sup>1</sup> E. Hilton Young (Lord Kennet), *The System of National Finance*, 3rd ed., p. 52.

## PART III

# INDUSTRIAL PLANNING

## CHAPTER X

### *Division of Responsibility*

UNTIL the beginning of the First World War the doctrine of *laissez-faire* was still prevalent enough to discourage any widespread belief that the Government should be held responsible for generating full employment. The common assumption was that whenever industry fell into disaster, forces inherent in the economic system itself would in due course bring revival. State intervention with the deliberate aim of planning domestic trade was at no time contemplated. Now, however, there is a risk of a swing to the other extreme. The State may be required to bear the entire onus of the national plan, private enterprise being wholly absolved from responsibility.

There is doubtless strong justification for insisting that the State should take a governing and guiding part, for local action can achieve little without adequate organisation from the centre. No single industry is in a position to expand even its own employment capacity, unless it happens to serve a market that responds eagerly to a fall of prices. The coalmining industry in South West Scotland, for example, could not conceivably devise a scheme for its own growth, except as part of a concurrent scheme having much wider reach. The mines serve many hundreds of local markets provided by other industries and private consumers. Unless these markets can be planned and expanded, the utmost that the coal industry can do is to adjust itself to the volume of the given demand. Further, even though all industries in Great Britain were to confer, they could not plan the scale of their output unless by some means they could regulate the power of the British people to consume.

The possibility is not to be excluded that the nation's industry might unite in the attempt to exercise some control over consuming power through, say, the planning of wages. But the attempt would

suffer strict limitations. Wages cannot easily be varied at the expense of that part of profit which is a return for the *relative* efficiency of strong firms. If average firms are to be allowed any profit at all, others will earn much. Moreover, interest on capital is protected wherever profit is earned. As a broad generalisation it may be said that the regulation of consuming power is less a problem of direct wages control than of redistributing income through taxation; and in the sphere of taxation the Government is supreme. Hence upon the Government falls that essential responsibility which springs from the possession of important controls.

Nevertheless, the work of reinforcement is vital. After the war it will become especially evident that each industry has a distinct, definable role in reconstruction. For this purpose industries may be divided into three groups. There are first the war-expanded industries — Engineering, Shipbuilding, Iron and Steel, Airplane Manufacture and the like — which must inevitably face some ultimate contraction. Secondly, there are industries which have been partly converted to war purposes and will need to regain their peacetime markets at home and abroad. Coalmining, Chemicals, Cotton, Wool and other Textiles might be included in this group. Thirdly, there are all the remaining industries, the great majority being suppliers of consumption goods, whose main function after the war will be to attain the greatest possible expansion in order to absorb all surplus labour. Some will have contracted seriously during the war: Motor Car Manufacture (private), Printing, Paper-making, Radio, Building and Furniture-making, for instance; while others will start with a fairly high volume of trade: Food, Drink, Tobacco, Entertainments, Hotels, Laundries and substantially all undertakings supplying indispensable consumption goods. Industries in this third class will be marked out for rapid enlargement till substantially all labour has been absorbed from the dwindling war industries and the Services.

Each industry will thus have its acknowledged part. It is for the Planning Authority to define that part. The industry will then know what is expected of it and will be able to collaborate by making the necessary internal adjustments.

An indication of the respective roles of State and Industry may be drawn from certain examples of failure after the last war. Shipbuilding, for instance, was left permanently to its own devices by a series of

Governments which not only lacked any long-term programme but were utterly heedless of the effects of their own swaying demands. Far from providing a basis of certainty for Shipbuilding, they added to its troubles by wide and completely unpredictable variations in public orders for ships. Driven to extremities such as have rarely faced any group of business men, the leaders of this industry adopted a form of rationalisation designed to adjust capacity to the shrinking demand. The only fair criticism of their programme, if the private-enterprise principle of *saucé qui peut* be admitted, is that it ought to have started earlier and proceeded further. It cut down the number of shipbuilding yards but left considerable surplus capacity. War has now totally transformed the position ; and these men are condemned because no capacity could be too great for the present emergency. The blame falls on the wrong shoulders. In future every Government should have a long-term plan covering whatever contingencies it is the function of a Government to foresee, so that each industry can be informed precisely what is its share in the plan and what demands it will have to meet. If the demands are to vary, the Government should give precise guarantees of assistance covering the lean periods. The industry can then rationalise its structure to conform to the known future conditions of demand and cost.

Engineering presents a similar case. A munitions industry cannot be run on the assumption that profits will emerge at intervals of twenty years and that firms should hold themselves in readiness for such chance occasions. For every industry there is a peacetime size appropriate to the peacetime demand. It is the duty of the Planning Authority to declare what the demand is likely to be. If the Authority considers surplus capacity to be necessary for future crises, it should be exact in announcing the need and in contributing to the upkeep of plant. When the requirements have been made known, plans can be jointly evolved by the industry and the Authority for adjusting both the "active" and the "reserve" parts of the industry to their due size.

In general, then, the division of labour between the industry and the Planning Authority will be this : The Planning Authority predicts the future demand and gives guarantees ; the industry undertakes reorganisation and restores itself to a size suited to the demand.

Closely connected with any decision regarding the size of an

industry is the planning of investment. Here again the need for co-operation is manifest.

*Prima facie*, any social control of investment is directly antagonistic to the very conception of "private enterprise". This term can mean nothing unless it means the right of each unit to dispose of capital, expand, modernise plant, and adjust the firm's structure to the requirements of new method or technique. If this right to invest is destroyed, there is little left of the essential substance and meaning of "private enterprise".

Deadlock can be escaped if two conditions are observed. First, the control over investment should invariably relate to the aggregate for large groups each member of which retains considerable independence in regulating investment. Secondly, the control should be evolved by, or at least with the collaboration of, the members of each group. Once more, the ideal division of responsibility would seem to be, on the Government's part, an indication of the probable or planned demand for the industry's output, and on the industry's part, the development of a scheme for adjusting the industry's aggregate investment according to the anticipated demand. The Government is the planner of consumption. The industry is the planner, through investment, of production. When both aspects are co-ordinated the national plan is in balance.

There are innumerable other spheres of co-operation which it is the aim of ensuing chapters to investigate: the problem of price-fixing; the training and transfer of personnel; research into new method; promotion of export; the development of systems of credit for home and foreign trade; the organization of marketing. It is self-evident that the closer the collaboration between Government and Industry in these matters the more comprehensive and concerted becomes the national plan. No general rule can be laid down, however, indicating where Government responsibility ends and where that of an industry begins. Each industry presents a unique problem in a unique environment and must be examined separately.

There is one serious dilemma which confronts all national planning: a dilemma before which the Government itself is powerless, so long as private enterprise remains. It is that *the more successful the plan, in providing strong markets, the less is the effort required of*



*entrepreneurs*. If entrepreneurs, finding that profits are made easily, exert themselves less, technical progress will not be sustained. In the long run it may be better not to plan.

The dilemma is absolute. It affects not merely the plans in these pages, but all private-enterprise planning, everywhere, in all conditions. The profoundest danger which besets every industrial programme is that its success will contain the seeds of its ultimate defeat. Successful planning eliminates fear. Fear is at least a stimulus; and with its removal a substitute is needed affecting employers and employed alike. The dread of unemployment is a terrible discipline. The overhanging shadow of bankruptcy imposes inexorable coercion on many an employer who would prefer to rest. If these menaces be removed, effort may cease or diminish.

The same embarrassment applies to every form of Government aid to an industry. In the chapters below, although there is constant emphasis on methods of self-help, the chief attempt throughout is to discover how each industry may play its full part in the national plan. Often it cannot assume an adequate role without Government help, and a scheme of assistance is then suggested. But according to one thesis, strongly held by the harder breed of industrialists who believe that to drive the weak to the wall is the one saving principle of business, permanent State aid will destroy the very sap of the industry. Permanent support, it is said, leads to permanent invalidism. Permanent security encourages permanent contentment and, in the end, lethargy.

None can say what degree of truth this view holds. If it contains overriding truth, then all consideration of national planning in a private economy is waste of effort. After an initial spurt in which there is comforting improvement arising from the plan, decline will set in and will continue till the plan is abandoned and fear again reigns.

The Government cannot be responsible for failure arising from such lack of motive. At this point the whole burden of obligation falls on industry itself. Reasons once more accumulate, therefore, in favour of some scheme whereby industry itself becomes responsible for inspiring, and largely inventing, the national plan. If the initiative comes primarily from organisations of employers and workers, a lasting concern may develop among them for the success of the planning. Although they cannot usurp the State's sovereign authority nor take over its inalienable control of monetary and fiscal policy, they

have nevertheless the powers and obligations arising from their function as contributors of the whole physical basis of life. The ranks of industry are large and could be strong enough to enable its leaders to define and demand the action required of the State — and then to organise the complementary industrial part. Were this initiative taken, the risk of a check to progress would at least lessen. Men with a proprietary interest in the national plan may be expected to afford it internal strength by an enduring effort to raise its efficiency.

It should be recalled that throughout this Part a general environment of private enterprise is *assumed*.

## CHAPTER XI

### *Shipping and Shipbuilding*<sup>1</sup>

If every British merchant ship were sunk, American yards could replace the entire tonnage of the fleet in about two years. This is perhaps the most significant fact affecting the post-war fortunes of Shipping and Shipbuilding in Great Britain and in every other ship-owning country. Within twelve months of the Armistice surplus of tonnage may be universal. Existing fleets will be composed chiefly of new ships, and replacement on a large scale may not be required for some years. Whether the production of air freighters will add to the embarrassment is a matter for conjecture ; but it is reasonable to assume that the prospects for Shipbuilding during the first stages of peace will be exceedingly poor.

The outlook for later years is less black. Mass production of ships is possible only in response to mass consumption. When demand fails, yards which have been constructed to deal with vast output will become idle along with others ; and if their maintenance costs are great they will be the first to close. In due course the method of building in single units according to unique specifications will be restored and work will be given to yards which are most efficient in specialisation.

Post-war co-operation between the British Government and Shipbuilding should therefore be concerned primarily with the immediate emergency period. If the industry can be enabled to survive this peculiarly difficult stage of transition, its future would seem reasonably secure.

<sup>1</sup> This and several other industrial chapters have been much reduced from their original size, and exclude certain descriptions and explanations which sustain the findings. Discussion is mainly confined to the way in which each industry's distinctive plan may be made to reinforce, dovetail into, and derive strength from a national plan framed according to the ideas in Part II.

The present chapter has been written in collaboration with Miss Deane. Sources include : *Lloyd's Register* ; *Annual Statement of the Navigation and Shipping of the United Kingdom* ; *Glasgow Herald*, shipbuilding trade reviews ; Board of Trade *Industrial Survey*, 1932, S.W. Scotland and N.E. Coast ; *Labour Gazette* and other official publications.

### *The Past*

However severe may be the post-war depression in British Shipbuilding, it cannot be much worse than past slumps. Trade statistics for South West Scotland reveal what can only be regarded as an appalling condition in this area during the last ten years of peace. The former capacity of the yards in Glasgow and Greenock is approximately shown by the figures for "tonnage under construction" in 1920-21. In the first quarter of 1921 no less than 1,345,864 tons were under construction in these two districts of the Clyde. At the end of 1926 less than a fourth of this was being produced: namely, 283,280 tons. Throughout 1932 less than one-seventh was under construction. In 1936, 1937 and 1938, which ranked as relatively good years, production in terms of tonnage under construction was still, on the average for the period, less than one-third of the high figure of 1921.

Unemployment figures present the same grim picture. Three out of every five Scottish shipbuilders were unemployed throughout the three years beginning in April 1931, and during four catastrophic months of this period three out of every four were idle.

At one time the 10s. shares of the firm which had the honour of building the *Queen Mary* and the *Queen Elizabeth* could be bought for 9d.

These signs of prostration in the Clyde industry are typical of the whole country. Unemployment among shipbuilders in Great Britain and Northern Ireland was over 50 per cent. for three years beginning in March 1931. On the North East Coast the figure stood above 70 per cent. for sixteen months of this period; and in Northern Ireland unemployment at one stage reached 82.8 per cent.

It is not improbable that unless drastic measures are taken a similar situation will prevail for some years after the war. In the outline below a series of remedies will be considered, all of which fall within the following categories:

- |                               |                                      |
|-------------------------------|--------------------------------------|
| I. Self-help in Shipbuilding. | III. Government aid for Shipping.    |
| II. Self-help in Shipping.    | IV. Government aid for Shipbuilding. |

## I. SELF-HELP IN SHIPBUILDING

There are at present, in 1941, upwards of sixty large shipbuilding establishments in the United Kingdom, not including a considerable number of repair works. On the Clyde alone twenty-two establishments are in operation, having an employment capacity ranging from a few hundred to more than 7000. Some of them are shipyards pure and simple, while others embrace in one self-contained area their own engine works, boiler shops, foundries and repair works.

In external appearance every shipbuilding yard is a vast workshop for assembling parts. But it is not the physical, conspicuous activity which is most significant. There are four primary functions of a shipbuilding firm ; and it is in the performance of these functions that each firm proves its quality. The first is that of Naval Architecture, comprising design, planning and the associated work of costing or estimating. Secondly, there is the function of research and invention. Thirdly, there is expert buying. Fourthly, there is assembly, manufacture or construction.

The special significance of each of these aspects of Shipbuilding is perhaps seen best in relation to the task of reducing costs.

(1) In this, Naval Architecture inevitably takes a leading part. It is first the design of the yards, then the design of each ship launched, which chiefly affects the essential cost ratio : the ratio of the annual value-in-service of a ship to the annual cost of putting the ship to sea and using it.

The value-in-service of the ship depends on innumerable factors such as : (1) speed ; (2) fuel consumption ; (3) " useful " cargo capacity as distinct from bunker capacity ; (4) port speed in loading and discharging ; (5) ability to face the weather conditions on the intended trade route ; (6) accommodation for crew ; (7) ease in manœuvring ; (8) avoidance of damage to cargo ; (9) length of life of the ship and cost of repair. All such points are matters for most careful judgment by the Naval Architects' Department, and it alone has the technical ability to give effect to its decisions.

Then, as regards the cost of constructing the vessel as designed, much depends on the efficiency with which the ship-parts and the workmen's equipment and mechanical tools can be concentrated at a particular point on the hull. In other words, it is the architecture of

the yards themselves which in the main determines the cost of assembly and construction.

One authority on Shipbuilding, concerned chiefly with the valuing of shipyards, declares that the most significant of all cost factors is the lay-out of the yard. The lay-out determines the total movement involved: the movement of men and of materials. And in final analysis the greater part of the construction cost can be reduced to nothing but the cost of movement.

(II) Next in importance is the unremitting effort of research and invention. Cost reduction depends partly on the ability to make or discover new materials which will reduce weight, add strength, resist corrosion or heat, or reduce the area subject to water friction. In passenger ships, because of the great variety of materials used, the scope for innovation is virtually limitless. Firms which produce their own engines have still further fields for exploration. Since 1890, horse-power per ton of machinery has been raised almost threefold for merchant ships. Fuel consumption has been reduced from the very early 4.5 lb. of coal per H.P. per hour to one-half or, for Diesel engines, even one-third of a pound of oil. And weight reduction in boilers and engines has reached such limits that in passenger ships the embarrassment is often that there is not enough weight to ensure satisfactory immersion and stability.

(III) The importance of expert buying is clear when it is realised that the cost of materials is not less than 60 per cent. of the total cost, excluding profit, of building a ship.

(IV) In the actual process of assembling parts, all the human and technical problems of works management arise. On the technical side there have been experiments lately in preconstruction or the building of parts before they are raised to the hull. In general, however, the main problem is the same as that which has given rise, in the erection of American skyscrapers, to the introduction of a "Building Organiser" between the architect and the builder: namely, the problem of bringing every item of material into its assembly place in the yard at the precise moment when it is needed. Delay in the arrival of any important part may cause immense waste. When this occurs, "the only thing to do", according to one informant, "is to bring every man off the ship at once".

### *The Cost Structure*

Before methods of self-help in an industry can be examined something must be known of its cost "structure", in particular, the relation between prime costs, fixed costs and shut-down costs.

Relatively, say, to the total outlay for building a battleship, the shut-down costs of a shipbuilding yard may be exceedingly small. Much depends on the method of finance. If the firm has issued considerable debenture stock its shut-down costs will be correspondingly high. Another important factor is the liability of the plant to deteriorate. The more lavish the provision of cranes and machinery, the greater will be the cost of keeping them idle, with the result that it is often the largest firm which has the heaviest expense in shutting down temporarily. A small firm may be faced only with rates, rent, small charges for insurance and upkeep of plant, and the maintenance of a skeleton staff. As will be seen, the outlay for these will often be quite inconsiderable compared with the usual cost of operation of the firm.

One discovery made in this enquiry is that, as a rule, shut-down costs are the only absolutely "fixed" costs. It is true that some overhead charges, not included in shut-down costs, may be difficult to reduce once they have become established. They may be "semi-fixed" in the sense that time and friction are involved in reducing them. But in Shipbuilding even these semi-fixed charges are both small in amount and fairly easily adjusted. For instance, advertisement, sales and distribution costs are negligible. Insurance can be varied. Clerical, administrative, research and drawing-office staffs can be partly adjusted to the number and size of contracts. Directorates are small in relation to their operations, and their fees are not sacrosanct.

Prime cost accounts for an overwhelmingly large proportion of total cost. The greatest single item is expenditure on material. Among firms which do not produce their own engines, material cost may rise to as much as two-thirds of the whole. The percentage varies according to the rise and fall of prices; but it was estimated before the war by a director of a Clyde shipbuilding firm that, owing to increased specialisation of construction, shipbuilders control not more than one-third of the cost of a ship.

The next prime cost in order of importance is wages. If salaries be included this factor accounts for the greater part of the rest of the

cost, since, as noted, overhead charges other than for clerical and professional staff are very slight.<sup>1</sup> A further prime cost, power, is apparently not a large item.

There are strong grounds for believing, according to advice received, that prime costs tend to rise as from the first contract. In other words, when a firm is engaged on a single contract the prime cost per ton of output is less than when a further contract is added. The reason is mainly that the efficiency of labour and management is highest when concentration is greatest; but there is the further consideration that when the demand for ship materials expands, their prices rise, perhaps almost imperceptibly at first, but progressively as new orders are added.

To these general data concerning the cost structure of a firm, some details will be added during the discussion of policy. The problem to be confronted must now be assumed and examined.

### *Post-War Policy*

Let it be supposed that after the war the Shipbuilding industry of Great Britain is faced, as before, with a collapse of demand to less than one-half of the capacity of the yards. What remedy has the industry?

It will be sound first to eliminate policies which will *not* avail. From the foregoing account of costs it is clear, at the outset, that there is little value in any form of amalgamation of shipbuilding firms. One purpose in amalgamation is to enlarge the scale of operations so that overhead charges may be spread over much greater output. As noted, however, in the building of ships "fixed" or overhead costs are slight and are not truly rigid. Then, amalgamation may yield benefit when prime costs fall with the increase of output. But in Shipbuilding prime costs rise. Other considerations such as the increased use of machinery, avoidance of competition in advertisement and overlap in transport, and the economy of bulk selling, are irrelevant to this industry. There are indeed strong economic grounds for assuming that however deep the abyss into which Shipbuilding may fall after this war the remedy will not be sought through large-scale amalgamation.

At the other extreme, the notion of deliberately intensifying competition in order to cut down the size of the industry is equally

<sup>1</sup> The term "cost" does not embrace profit and interest on owners' capital. The return to owners may be considerable, or it may be negative.



unsound and unnecessary: unsound, because the utmost loss which can be forced upon any firm by others if it is determined to hold its ground is shut-down cost;<sup>1</sup> unnecessary, because a highly efficient system has been devised already for eliminating redundant yards. No doubt this system will operate again if it is needed.

In brief, the scheme was as follows. A company known as National Shipbuilders' Security, Limited, was formed in February 1930 with the right to borrow up to £2,500,000. Each shipbuilding firm which accepted membership of the company executed a deed of covenant to pay to it a sum equal to 1 per cent. of the contract or sale price of all vessels after completion. The revenue thus derived was used to buy up redundant yards voluntarily offered for sale. More than two-fifths of the existing yards were eliminated before the end of the peace interval.

### *Future Action in Emergency*

Two of the schemes of self-help to be proposed below would be unnecessary if the Government assumed its full responsibility for planning. In default of a national plan, however, every industry must inevitably seek some form of independent salvation.

The first proposal is simply to revive National Shipbuilders' Security, Limited, as a means of adjusting capacity to demand. The precaution will be necessary, in the purchase of redundant units, to leave enough specialised yards for each type of ship to be built, to preserve a balance between different parts of the country, and to ensure that it is the technically strong, rather than the financially strong, units which survive.

The Government action which would make this unnecessary would be *State* purchase of redundant yards with a view to holding in reserve as much capacity as might be needed in emergency.

### *Insurance against Depression*

The second proposal is to extend the National Shipbuilders' Security scheme to create a form of insurance against depression. The levy on completed tonnage might be raised to 5 per cent., the funds being used to subsidise ship purchases during depression.

<sup>1</sup> In practice few firms have used the expedient of shutting down temporarily. They prefer to continue working at a loss greater than shut-down cost because the difficulty of reopening, collecting a new team and new material, and regaining rhythm is considerable.

The scheme would be made as fully international as possible. If some foreign builders failed to adhere, a 5 per cent. tariff might be imposed on the purchase of ships built in countries where the scheme was not operating.

During a depression, after a date to be fixed by representatives of shipbuilders, a grant from the international fund would be made, as a percentage of value purchased, to shipowners in all countries subject to the levy, provided that they placed orders within a given time limit.

The effect of the plan would be to raise prices during relatively prosperous times in order to offer low prices in depression. Demand would be spread over time.

As will be seen later, Governments have more efficacious means of gaining the same end. There is one sphere, however, in which the State has little power unless it is prepared to take over the entire industry itself: that is, the realm of technical progress whereby the rate of ship replacement may be increased. Such progress affects the long-term health of the industry rather than its capacity to meet the immediate post-war emergency.

### *Ship Replacement*

If technical advance in Shipbuilding is swift, old ships lose the capacity to compete with new. The ship-replacement rate rises. Shipyards become more active.

Before the war the aggregate merchant fleets of the British Empire exceeded 20,000,000 tons gross. If the entire replacement of the fleet were effected in British yards, a 6 per cent. replacement rate would imply an annual output of 1,200,000 tons, to which would be added tonnage for the expansion of the Fleet, for export and for the account of the Government. These together might ensure a reasonable level of activity in British shipbuilding yards.

Progress in cost-cutting and in the production of better ships from the same material may proceed by many channels. Some discoveries may prove revolutionary. At present the loss of energy in the average mercantile engine between the combustion of the fuel and the propulsion of the ship is such that the efficiency retained is less than one-fourth. Invention may lead to a sudden and far-reaching increase in this proportion; but such changes could never be predicted. Other advances may take the form of steady development along stereotyped

lines, say through the meticulous study of the type of ship design which will most fully suit each trade or class of freight.

Although it is impossible to foretell the course of invention, what may be said with dogmatic force is that so long as there remains any degree of competition whatever, the ultimate survival of any branch of the Shipbuilding industry will depend on the rigour and concentration with which its research staff and architectural department follow every clue to technical economy. The stimulus in peacetime was a most sternly constraining combination of home and foreign competition. Such competition may continue. If it does, only the fit will survive. If it does not — if, for instance, it is diminished for the British industry through Government aid or intervention — there may be grave risk that the industry will become enfeebled through lack of compelling motive. There are few industries in which business rivalry has played a more coercive part. Should this spur be abandoned, an immense responsibility falls on the industry to discover a further dynamic.

### *The World Market*

The world market for ships has long been subject to political influence. Countries which required either a large Navy for defence or a Merchant Service to import essential goods, cannot afford to let their shipbuilding fail. Direct or indirect subsidies are therefore assured to the home industry whenever it is threatened with collapse or failure in competition. For these reasons, British shipbuilders do not apparently rest their hopes on recovering a large share of the foreign market for ships.

MERCANTILE TONNAGE LAUNCHED FROM THE CLYDE FOR HOME,  
DOMINION AND FOREIGN SHIPOWNERS<sup>1</sup>

Shipowner	1913	1920	1921	1926	1927
Home . .	583,374	457,288	292,275	298,752	323,911
Dominion .	29,286	61,870	54,072	27,855	42,062
Foreign .	144,316	153,280	164,838	250	15,131
TOTAL .	756,976	672,438	511,185	326,857	381,104

<sup>1</sup> Figures reproduced by the courtesy of the Shipbuilding Correspondent of the *Glasgow Herald*.

### *The Home Market*

The task of maintaining command over the home market does not appear to have raised serious difficulty except at times when for special reasons British costs have risen sharply in relation to foreign costs. In the year 1937 this handicap was especially felt. There was a rearmament boom in Great Britain incomparably greater than that of Holland, Scandinavia and other competing countries. Rearmament absorbs materials and machines of the type required for shipbuilding, and creates serious scarcity and rising prices. According to figures quoted in *Fairplay*, the cost per ton deadweight of producing a merchant ship of plain design in Great Britain rose from less than £9 in June 1935 to over-£14 at the end of 1937. During 1937 and 1938 there was a substantial, indeed unprecedented, diversion of orders from British to foreign yards. The *Glasgow Herald* reports in August 1938, for instance : "For the first time in history the shipbuilding industry has to record an adverse trade balance. The total foreign mercantile work under construction in this country has a declared value of some £3,500,000, compared with £6,500,000 worth of orders in foreign yards for British owners."

This experience indicates that the home market is never finally secure. A wide divergence of home and foreign prices at all times involves the risk that the traditional loyalty of British Shipping to the domestic Shipbuilding trade will be destroyed. Clearly the Shipbuilding industry can never afford to ignore competitive costs and prices.

### *Government and Industry*

As a preliminary general conclusion it may be suggested that the division of responsibility between the Shipbuilding industry and the Government is as follows. The *long-period* survival of the British industry as the major branch of the world's Shipbuilding trade depends primarily upon its own ability to diminish costs. On the assumption, then, that technical progress in the future is not less than in the past, and that the British industry continues to maintain the competitive pace, it is the Government's responsibility to provide those conditions of international trade, and of Government demand for ships, which will give rise to a large and steady volume of orders for replacement, repair and expansion. The Government is in the long run powerless

without the industry's improving technique ; the industry is powerless at any given moment without those conditions of expansion which it is the duty of a Government to provide.

Measures of self-help available to the industry after the war would seem to be confined to the following broad lines :

- (1) The unceasing work of invention, discovery, design and, in general, cost-reduction.
- (2) The training, encouragement and promotion of young men of inventive ability.
- (3) Agreements between employers and operatives for the fullest exploitation of new technical methods in consideration of a State guarantee of stability of employment (see later).
- (4) Vertical integration, especially for the control of ship materials and their prices.
- (5) The continued adjustment of the size of the industry to the demand.
- (6) Ironing out cyclical fluctuations in demand through (a) a system of insurance against depression and (b) combination and collaboration with shipowners.

## II. SELF-HELP IN SHIPPING

### *Divisions in the Industry*

#### *Liner Shipping*

It has been estimated that nearly a quarter of the merchant tonnage on the Register of the United Kingdom is controlled more or less directly by the five great British liner companies — the P. and O., Royal Mail, Cunard, Ellerman and Furness Withy groups. In 1939 twenty companies owned some 75 per cent. of the United Kingdom liner tonnage.

Within this liner group competition is comparatively restricted. The liners operate on certain well-defined routes, and there is a minimum of overlap in the services provided by the chief companies. The P. and O. lines, for example, cover ports on the route for the Far East via the Mediterranean ; the Ellerman group travels to the Far East by the more southerly route round the Cape ; the Royal Mail unites most of the traffic to South America and the West Indies ; and the Cunard group plies between Britain and North America.

### *Tramp Shipping*

The characteristic of the service provided by the liner company is its regularity. It covers a predetermined route according to a published time schedule, and its ships sail irrespective of the load they carry. On the other hand, tramp ships, which form the second main division of the industry, are at the beck and call of traders in every port where traffic happens to be available, and sail at the times and on the routes prescribed by each shipper. It is the extraordinary flexibility of the tramp service that enables the Shipping industry to adapt its capacity to the seasonal or accidental vagaries of trade on which the amount of cargo available at any time or place depends.

To the shipping company, a fleet of small vessels is an infinitely more flexible unit than a single large vessel. This consideration dictates the size of both vessels and firms in tramp shipping. In 1938 the tramp companies of the United Kingdom had an average paid-up capital per company of under £117,650. The number of ships in each fleet is generally small, each company owning on an average rather more than three ships.

The Tramp Shipping industry distributes its service fairly evenly over the whole of the United Kingdom ports and harbours. The following table, giving the territorial distribution of tramp companies at the end of December 1938, indicates the principal centres of these services :

Location	No. of Companies	No. of Ships	Tons Gross
London . . .	80	238	1,158,518
N.E. coast . .	51	233	1,048,854
Clyde . . .	37	114	498,706
Bristol Channel .	43	104	491,393
Others . . .	10	46	213,862

### *Coastal Traffic*

The third main division is Coastwise Shipping. It includes all types of ship, both liner and tramp ; but, broadly speaking, ships employed in this trade fall into one of three sub-classes. There is first the *coastal liner*, a vessel usually of some 10,000 tons, which in 1935 was typical of about 46 per cent. of the gross coastwise tonnage.

Passenger and cargo accommodation are combined in 64 per cent. of the cases. The *larger coasting tramp*, of 1000 tons or over, forms the second main class of coastal vessel, and is chiefly engaged in the coal trade. Finally, there is the *smaller coasting tramp*, of under 1000 tons. Included in this class are many motor boats operating singly or in small fleets from most British ports.

### *Intensity of Competition*

There is no branch of the Shipping industry which is not subject to some degree of competition. This may take several forms. Competition within the group is particularly marked in the tramp section of the industry. The international market for ocean freight transport, for example, is one of the most competitive in existence. Charter rates are quoted daily and adjusted as between different centres in all parts of the world by telegraph. More recently, however, some efforts have been made to limit the extent of this competition by the organisation of minimum freight schemes in the main tramp trades.

Liner rates are much more rigid, being normally fixed for relatively long periods. In peacetime they have often been controlled through the Liner Conference system, under which the freights in many of the principal trades are regulated by associations of the lines engaged. The nature of the agreement may vary from a formal undertaking to observe certain minimum freight rates to an elaborate demarcation of interest and an attempt to obtain a limited monopoly through a scheme of rebates to shippers using Conference lines.

Although there is thus a marked difference in the degree of *internal* competition experienced in the British liner and tramp sections — a difference due mainly to the type of service they render — both are menaced by other forms of competition, especially in periods of depression when surplus capacity grows. Both are subject to some measure of competition from foreign shipping in all parts of the high seas, and even in the sphere of British coastal traffic there has been substantial invasion from abroad, in particular by Dutch vessels. Both are apt to invade one another's territory. And both are rivalled by inland transport in carrying goods from one British port to another. These facts have a substantial bearing on future policy.

*The Possibilities of Action by the Industry*

It is sound to recognise at the outset that the political interests of the State, if construed in a narrow, nationalistic way, are directly antagonistic to the interests of Shipping. To a Government which is compelled to think in terms of wartime needs, a large merchant navy may seem indispensable regardless of the absence of overseas trade. To shipping concerns, on the other hand, it is imperative at all times to avoid surplus capacity. Idle tonnage invariably spells a collapse in freights. When this happens, profitless times continue until the harsh process of cutting down capacity at last reduces competition to a point at which freights can rise again above costs.

Self-help in Shipping after the war may therefore consist partly in fighting any false or irresponsible policy on the part of the State. The industry should be adamant in adjusting its capacity to the actual need ; for only by so doing will it compel the Government to shoulder its own fair responsibility. If the Government, as representative of the people, considers that there is a political need for surplus ships, it should purchase the ships itself and pay the cost of laying up the whole additional tonnage.

Subsidies are a trap. Inevitably, if some nations subsidise their shipping others will feel compelled to do the same. But the total effect, if all nations adopt the policy, is to intensify freight-cutting. The fall in freights may lead to some expansion of overseas trade ; but the effect will not be appreciable. The root cause of the trouble, the superabundance of ships, will remain untouched.

Hence the primary, positive object of self-help in Shipping should be to adjust the size of merchant fleets everywhere to the actual demand for shipping space. The immediate post-Armistice period will be the most propitious for this, both nationally and internationally, for scarcity will at first prevail : and it should prove easier to limit expansion than to effect contraction.

The most suitable method of reducing capacity will be to create a common fund, similar to that of National Shipbuilders' Security, Limited, for buying and scrapping old tonnage and for laying up ships during a slump. The fund would be financed by contributions from shipping companies, assessed as a percentage of their gross receipts from freights. If possible the scheme would be extended to all countries with merchant fleets, but if that proved difficult a purely national fund



would nevertheless be valuable, especially in the liner section.

Surplus ships would be bought either with money borrowed on the security of the income of the fund, or with the accumulated resources of the fund, the prices offered being attractive enough to ensure the surrender of whatever tonnage was judged to be surplus. Laid-up tonnage could be re-sold to shipping firms when trade improved.

The same fund might be further employed, after it had done this work, in supporting the insurance-against-depression plan recommended for Shipbuilding. It is in the interests of shipowners to buy during depression if prices are low enough to compensate the cost of laying up shipping ; and they will gain by co-operating in a scheme for reducing ship prices at a time when the building yards are empty.

### *Fair Competitive Conditions*

Apart from measures for reducing capacity, certain international means are available for diminishing the intensity and ill-effects of competition in shipping. A development specially strengthening to the tramp section of the industry will be the world-wide promotion, through the International Labour Organisation, of the International Seamen's Code elaborated by that body. The provisions of the Code cover many items affecting the cost of navigating, such as : Hours of Work on board Ship and Manning ; Employment of Children and Young Persons at Sea ; Sickness Insurance ; Unemployment Insurance ; and Annual Holidays with Pay. Once such a Code has become established, the further task of securing international agreement on minimum freights to be charged on different classes of cargoes will be much simplified, and greater success in this may be expected than was achieved before the war.

## III. GOVERNMENT AID FOR SHIPPING

Before the Government can devise a policy for Shipping it must come to a decision on a more fundamental matter. The first problem to be faced is political : namely, whether British security is to be guaranteed in future through the nation's own strength or through the creation of an international body whose independent strength shall exceed that of any combination of nations or ex-nations. The methods are mutually exclusive in practically every field of their application.

There will nevertheless be an almost overwhelming temptation after the war to work on both theories at once. And the end may again be divided counsel and confusion. For immediate purposes, however, it will be assumed that the intention is to build up a world-power for the defence of agreed principles of justice.

The embryo of an international police force exists already in the form of the combined Allied armies, navies and air units ; and it may gain strength and expand by incorporating the forces of neutrals and others. As counterpart to the growth of this police organisation there must be a corresponding growth in its means of supply. An international navy needs an international merchant fleet behind it. If, however, the entire merchant services of the world are internationalised *first*, a great simplification of control at once results. Not only is the police navy thereby assured of its supplies ; in addition, the supplies of national navies, if these are allowed to exist, are kept wholly under control.

The internationalisation of merchant shipping is therefore a principal step towards the creation of a world system depending on central dominant power. If that is to be the aim — and it may be noted that political aims will at times override minor economic considerations — there are certain national measures which will smooth the way for international control. One such step, recommended here for adoption *in any event*, is the nationalisation of all liner transport.

### *A British Liner Corporation*

The formation of a British Liner Corporation is suggested with a view to combining under one management all liner services whether trans-ocean or coastwise. The shares of existing companies would be purchased with cash by the Government, which would then own the assets of the Corporation in the same way as it owns the British Navy. For reasons to be indicated later, the Corporation would function more as a public service, to be maintained in the same way as the Navy, than as a commercial undertaking.

### *Tramp Shipping*

In a scheme of international control tramp shipping might be left free, or subject only to licence and inspection by agencies of the International Authority. Nationalisation of this branch of the service

will not be needed as a preparatory step to world organisation.

The proposals for tramp shipping will be considered shortly in relation to State aid to Shipbuilding, for it is through Shipping that Shipbuilding can be effectively sustained, and the shape of the measures will be determined partly by the needs of Shipbuilding.

It should be mentioned that all State schemes below are intended to supersede the earlier proposals for private action wherever there is overlap or conflict between the two sets of plans.

#### IV. GOVERNMENT AID FOR SHIPBUILDING

In the past, Shipbuilding has undoubtedly suffered more severely than any other British industry from the hand-to-mouth methods of Governments whose purview is limited to a single annual Budget. Consider the fluctuations in the public demands of this industry since 1920. In that year the naval tonnage launched from private yards was 17,684 displacement tons. In the four following years no construction took place in these yards at all. In 1925 there was a leap to 70,000 tons, of which the Clyde produced a half. In 1927 the figure fell abruptly to 10,544 tons, produced entirely by the Clyde. In the following year no less than 75,450 tons were launched. By 1931 the total launchings had fallen again to only 4140 tons and two years later were only 875 tons. Another leap to 60,960 tons in 1934 was followed by yet another lean year, only 21,450 tons being produced in 1935. After that, war preparation began.

NAVAL SHIPBUILDING: APPROXIMATE DISPLACEMENT TONNAGE LAUNCHED FROM PRIVATE YARDS<sup>1</sup>

Year	Clyde	United Kingdom	Year	Clyde	United Kingdom
1920	439	17,684	1929	6,860	20,220
1921	Nil	Nil	1930	2,660	20,039
1922	"	"	1931	Nil	4,140
1923	"	"	1932	2,750	21,305
1924	"	"	1933	875	875
1925	35,000	70,000	1934	25,635	60,960
1926	11,225	22,483	1935	8,895	21,450
1927	1,054	1,054	1936	31,080	66,309
1928	21,540	75,450	1937	42,970	97,649

<sup>1</sup> Statistical Abstract of the United Kingdom.

Such extremes as these may be in the public interest from one point of view. They reflect the temporary Government's current estimate of the need of defence. But they accord with no conception whatever of public morality. They evince no sense of responsibility for people. The practice of exploiting workers, then casting them on the industrial scrap-heap as soon as they have served the public ends, is utterly repugnant.

It is quite inconceivable that in any form of planned economy such violent fluctuations as these could be deliberately generated by a Government. As has been seen, the method of making compensation would be straightforward and peculiarly efficient. The method consists in bracketing together naval shipping and passenger shipping as a single unit for purposes of expenditure, so that whenever the State is relieved of the need for spending money on defence ships it diverts the money at once to the construction of passenger ships. When economies are made through reduced naval personnel, the funds released are spent in promoting civilian travel through the lowering of ocean fares and other means.

The British Liner Corporation would be the Government's agent for ordering and controlling the passenger ships. Under general instructions from the Planning Authority it would issue orders to the Shipbuilding industry, take the new ships into commission, and scrap others which were old or inefficient. Further, it would be the agent for receiving all moneys from the Exchequer and dividing them appropriately between the purchase of new ships and the reduction of fares to attract enough custom to fill the ships.

It is said that very substantial economy could be effected in the initial cost of passenger ships if less fastidious standards of accommodation were acceptable. A saving of the order of one-fourth of the current costs could apparently be made by constructing ships on a basis of lower speed and less elaborate amenities and decoration. With the aid of reduced running cost and the acceptance of a low return by the State, travel by sea might be brought within the means of many thousands of people who have never before left the British coast.

Naval and passenger services together will be the source of a high proportion of the demand for ships — possibly as much as one-half — but other groups are important. One is the cargo liner section. In

the past the demand for new tonnage from this branch of the trade has swung violently between extremes. In the interest of stable ship production it will be imperative after the war to regulate investment in cargo liners. If there exists a British Liner Corporation financed less as a commercial concern than as an instrument of national planning, the method of regulation will be simple and direct. The Corporation will be required by its constitution to maintain a stable replacement rate for cargo ships. The rate will be determined by Order of the Board of Trade and will remain unchanged except when a review of the situation manifestly calls for a new investment policy.

The demand for tramp ships for ocean and coastal transport — the last main category to consider — has likewise shown wide fluctuation. Government regulation, in this case, might be effected in one of several ways : (1) by strong support for privately organised schemes of insurance against depression ; (2) by providing facilities for the laying-up of tonnage, so that companies which bought heavily during depression would not suffer from over-capitalisation ; (3) by State purchase of ships for rent or sale to tramp companies.

The last method is favoured here. The Government might constitute itself a middleman between the shipbuilder and the ship-owner, buying ships at suitable times to promote stability of ship-building employment, and selling or renting them to the shipping trade whenever the demand arose. If, for political reasons, the Government wished to maintain a reserve of tonnage, it would purchase ships in excess of need and exchange the new ships for others at attractive exchange prices, laying up the older ships for emergency use.

The main proposals for the Shipping and Shipbuilding industries may be assembled in conclusion as follows :

- (1) The formation of a British Liner Corporation to assume the monopoly of both ocean-going and coastal liner transport.
- (2) The treatment of naval and passenger shipping in the same Vote in the Budget, and the expenditure of public funds in such a way that the aggregate employment given in the naval and passenger section of Shipbuilding remains constant.
- (3) The subsidy of travel by sea.

- (4) Observance by the British Liner Corporation of a fixed replacement rate for cargo liners.
- (5) State purchase of tramp ships for sale or hire to tramp companies, in accordance with the companies' design specifications.
- (6) State purchase of both ships and shipbuilding yards to form a reserve, the upkeep being at the State's expense, if a reserve is politically desirable.

These measures would contribute substantially to the triple scheme of national planning advocated in Part II. Consumption, both of goods and services, will be expanded through the subsidy of travel. The control of prices will be complete in the nationalised liner section, and will be simplified through the adjustment of capacity in the tramp section. And as regards Special Schemes, the devices above which come under this heading include measures for the direct control of investment in ships, and virtually guarantee stable employment in Shipbuilding.

## CHAPTER XII

### *Engineering*

THE tremendous significance of the role to be played by Engineering in the coming reconstruction rests in the fact that many parts of this industry can be expanded to re-employ munition workers. In view of the wartime devastation of docks, harbours, railways, bridges, factories and other capital equipment, there should be enough work to keep the large majority of engineering firms active for some years. Engineering proper, together with the Motor industry, should be able to absorb a high proportion of male munition workers, while the revival of Radio production will create employment for women.

The prospect of such development depends, however, on one vital condition: the possibility of *financing* the process of general re-equipment. It is clear that there will be no lack of need for engineering products. But this need can be translated into effective demand only if it is accompanied by the means to buy. Firms both at home and abroad will be standing idle, waiting for machinery for peacetime production. If they lack purchasing power themselves, they must by some means be given credit; otherwise the machines will not be ordered, and Engineering will remain depressed. In essence, therefore, the problem of reinvigorating this industry after the war is less one of internal stimulus and readjustment than of financing the restoration and re-equipment of industry as a whole. It is a problem of extending or guaranteeing credit. And the main concern below will be to discover by what methods the State can most efficiently promote the supply of credit for re-equipment.

The more rapidly credit can be expanded, the sooner will the "replacement boom" — which implies a boom in Engineering — gather speed. Success in generating such a boom is the immediate post-war aim. Only when it has been achieved will the more permanent problem arise: that of ruling out the long-term cyclical fluctuation of Engineering. This problem of the cycle may conveniently be left to the end of the chapter.

*Post-War Reconstruction Credits*

Immediately after the Armistice there will be a need for a Ministry of Supply with a new function : to speed up the transition to peacetime conditions by expanding different departments of industry *in their due order*. In Engineering the machine tools section must receive first attention. Next for consideration will come all those engineering firms which produce the machinery of essential-goods industries — bakeries, clothing and boot and shoe factories, coalmines, brick works, timber mills, and building, decorating and furnishing trades. In many cases both the engineering firms which supply these industries and the firms in the industries themselves are small ; and they may lack the means of borrowing on a fairly long-term and stable basis. The Ministry of Supply will need the power to furnish them with such means.

A scheme is proposed, therefore, under which finance officers of the Crown would be empowered to direct any bank to grant a loan to a borrower approved for the purpose by the Minister of Supply, the principal and interest of the loan being guaranteed to the bank by the Government through the deposit of Treasury Par Stock (see the chapter on Banking, p. 277). While the main object of the plan would be, as said, to enable the Ministry of Supply to equip the essential-goods industries, any firm in any industry might nevertheless make application for a loan under the scheme ; and its claim would be judged by special criteria discussed below.

The interest rate which the Government would pay to the banks in respect of such loans would be determined according to the actual net cost to the Banking system of extending credit, as revealed by the profit and loss accounts of the banks (see p. 279). The interest rate which the *borrower* would pay via the bank to the Government would exceed this rate by a fraction sufficient to cover the risk and administrative cost of the scheme. The borrower would be safeguarded against any calling-in of his loan during its currency, which would be fixed at the time of borrowing, and would not exceed five years. He would likewise be safeguarded against any change in the interest charged.

The finance officers entrusted with the granting of loans in each industrial district might be appointed by the Treasury, but they would act under regulations prepared jointly by the Treasury and the Ministry of Supply. Since they would need to co-operate closely with bank



managers in the day-to-day examination of applicants' claims and accounts, they might suitably be installed in the principal branches of the banks in the district. They would then be easily accessible to the banks' ordinary customers, who would be directed to the proper office by bank officials whenever they seemed to qualify for the special loans. Qualification would depend partly on the Ministry of Supply's priority list, partly on the extent to which the firm's need for credit arose out of war conditions, partly on the availability of other resources, and partly on the general credit policy involved by the national plan. If the national policy required a swift expansion of credit in order to prevent an Armistice slump, every applicant might be favoured at once if he could show that the scheme provided his only means of borrowing. Firms not on the priority list would, however, not be given terms more favourable than those usually allowed by the banks.

The legal measure required as the basis for such a scheme would be an adaptation of the Trade Facilities Act of 1921. This and subsequent Amendments authorise the Treasury, after consultation with an advisory committee, to guarantee payment of interest or capital, or both, of any loan raised for the purpose of capital expenditure or the purchase of United Kingdom goods, provided that "the application of the loan in the manner proposed is calculated to promote employment in the United Kingdom". The limit of the Treasury's lending power was first fixed at £2½ million, but as the scheme progressed the amount was raised by stages to £7½ million in 1926.

### *Medium-Term Credits for Export*

The representative of a firm producing dock machinery, when asked for an opinion about after-war prospects, said he had no fears for his trade in view of the activities of the R.A.F. Doubtless many other producers of such machinery, or of rolling stock, rails or oil-refinery machines, will share the same confidence. But the confidence is misplaced, unless, once again, the financial problem can be solved. New warehouses and equipment will appear in foreign ports only if the port authorities can find the money to buy them; and the equipment will involve British workmanship only if British money is available. Thus, one essential condition of the revival of the engineering export trade of this country is the provision of ample credit for foreign reconstruction.

For this purpose short-term credit is of little use. It is true that the destruction has to some extent affected stocks of goods ; and these stocks may be replaced with the aid of short-term loans. But the greater part of the damage is to durable equipment. The repair of this will call for loans extending over a period long enough to allow the country concerned to restore its industry ; for it is when trade is again active that repayment can be made out of profit, savings, or new borrowing rendered easy by the revival of confidence. Grants for periods varying from two to five years would seem indispensable.

Certain precedents for such grants may be noted. After the last war it was realised early that various new countries, including Latvia, Estonia, Lithuania, Poland and Czechoslovakia, together with Roumania, Serb-Croat-Slovene State, Finland, Georgia and Armenia, would be unable to buy extensively from British industry unless they were specially financed. In 1920, accordingly, the Overseas Trade (Credits and Insurance) Act was passed enabling the Board of Trade to grant credit to companies incorporated or domiciled in the United Kingdom in connection with the export to any of these countries of goods wholly or partly produced in the United Kingdom. The aggregate amount which might thus be lent was restricted to £26 million, and the limit of time for the repayment of credits was fixed at 8 September 1925. This time limit was later advanced ; and the Board of Trade was thus given reasonable scope in providing medium-term loans for export.

It can with all assurance be forecast that after this war many other countries will be in the same need. Some may have suffered great physical destruction ; others may have been denuded of stocks or financial reserves. In any event there will be a demand for some scheme similar to the above. But the scheme cannot become truly efficient *unless every overseas loan carries the British Government's own guarantee*. It is not enough for the Government to make the loan to the British exporting firm, leaving the firm to bear the onus of any default by the foreign importer. If risk is involved in lending to a new or devastated country, it is the Government's duty to assume the risk ; for it alone is competent to probe the position of the importing country and lay down conditions affecting its sound administration.

When special aid was given to Austria and Hungary in 1922 and 1924, the credits in both cases were associated with the direct inter-

national supervision of the internal government of the countries. And when, from 1922 onwards, substantial support was given to the Government of Sudan for irrigating the Gezira Plain — another important precedent involving a loan of £7 million, in respect of which the Treasury was empowered to guarantee both interest and capital — it may be assumed that the Treasury was able to satisfy itself as to the soundness of Sudanese administration.

The Government is indeed qualified in every way for relieving the exporter of unfair and burdensome risks. Not only has it the means of investigating the internal practices of borrowing countries and attaching conditions to loans ; it also has in being a method of enquiring into the credit-worthiness of individual foreign firms. For several years the Government has been developing a world-wide system for securing reliable information on the stability of firms demanding credit ; and although this system is connected mainly with a scheme for guaranteeing credits of a short-term nature, it may with much relevance be examined here.

#### *Government Guarantee of Export Credits*

An Export Credits Guarantee Department has been set up by the Board of Trade to administer certain powers conferred on the Board by the Export Guarantees Act, 1939, under which exporters can be insured against loss due to a wide range of causes.

The central feature of the scheme as developed in 1941 is an All-in War Emergency Guarantee whereby, under a single policy, a British exporter can be insured against loss due to (a) the insolvency of the foreign buyer, (b) the failure of the buyer to make payment owing to exchange restrictions, the occupation of his country by an enemy force, or any other political cause preventing the transfer of money, (c) the inability to ship goods ordered, and (d) the cost of transhipment, frustration or diversion of voyage.

The term "All-in" policy is justified, inasmuch as the policy specifies the few risks that are *excluded* — for instance, the exporter's own insolvency, civil commotion within the United Kingdom, and British governmental regulations — and insures the exporter against all else. Briefly, it guarantees 85 per cent. of the loss in the case of the insolvency of the foreign buyer, and 90 per cent. of any other loss due to the inability of the buyer to accept or pay for goods ordered, or

to the wartime difficulty of transport.

The British exporter qualifies for this insurance by declaring to the Department the whole of his export business for a period of twelve months, and by paying a premium on the aggregate value of it.

If the exporter wishes, he can be insured for each main risk separately. In addition he may take out a special policy for protection against a rise in freights and shipping insurance rates.

The advantages of the scheme, as indicated by a large exporting company which has used it, are, first, that it makes possible the vigorous promotion of sales in markets otherwise deemed too risky; secondly, that it enables the company to quote firm prices; and, thirdly, that it has in fact made compensation for past losses.

There is the further advantage, important especially for firms not in direct contact with their foreign customers, that the Department investigates the financial stability of all importing companies on its list and when necessary advises the exporter. The investigation is conducted through the British Government's representatives in all parts of the world, and the information becomes more valuable with time, since it is cumulative.

A criticism sometimes levelled against the scheme is that its insurance policies are too comprehensive to suit exporting firms which have foreign agencies under their direct control. In the markets covered by these agencies the firms are already paying the equivalent of insurance cost. It is in the other markets alone that they need insurance; and their requirements would be served best by policies relating to particular countries or continents. High premiums for such limited policies would not, apparently, destroy their value or popularity. However, the Department has not so far felt able to meet this demand, one reason being, no doubt, that it is reluctant to acquire a high proportion of the worst risks, which are the least easy to assess. When a Department has limited resources and must therefore try to give its policies a firm actuarial basis, the reluctance can be understood. But there may come a time, especially after the war, when the Government decides to assume risks which cannot conceivably be brought into an actuarial scheme.

### *Medium-Term Foreign Credits*

It is within the competence of the Export Credits Guarantee Department to develop a system of medium-term credits. The

Department has the right to incur liability up to a limit of £75 million ; and presumably this limit could be extended if new business required it.

It was seen earlier that for the double purpose of restoring devastated Europe and sustaining activity in the export section of British Engineering the chief need after the war will be credits having a term of between two and five years. The engineering firms cannot be expected to supply these credits, and the foreign importer may be unable to secure them outside Great Britain.

The British Government can already *guarantee* medium-term credits of this kind through insurance schemes similar to those evolved by the Export Credits Guarantee Department. But a guarantee is useless if nobody is willing to provide the actual credit. The type of scheme required is one under which an exporter, having received the Department's guarantee in respect of a foreign contract for which he requires a credit lasting several years, can then submit the guarantee to the bank as the equivalent of an instruction to it to supply the credit. Thus, the most satisfactory procedure would seem to be as follows.

A British exporter of engineering goods, for instance, takes the initiative by submitting a tender to a foreign Authority requiring engineering work. The tender is drawn up subject to its endorsement by the Export Credits Guarantee Department, and to the later inclusion of a risk-insurance premium in the contract price. If the overseas Authority accepts the tender, it is submitted to the Department, which determines the risk premium according to the prospective stability of the Authority and of the country concerned. The Department's guarantee confers on the exporter the title to demand from his bank a loan equal to the sum guaranteed. The rate of interest paid by the exporter is determined in the same way as for reconstruction credits, and is fixed for the whole currency of the loan. The bank is safeguarded through the deposit of Treasury Par Stock.<sup>1</sup>

### *A Twofold Scheme*

In brief, for the purpose of re-capitalising industry after the war and assisting the recovery of export trade in Engineering and other

<sup>1</sup> The risk of default by the exporter could be eliminated by a clause requiring him to pay to the bank a proportion of every payment received from the foreign importer — this proportion being the ratio of the amount of the loan to the total contract price.

capital-equipment industries, two systems of emergency credit are proposed. The first, mainly designed to assist the Ministry of Supply in expanding essential-goods industries, would provide domestic loans at relatively low, fixed rates for periods varying from two to five years. The second would provide foreign loans of similar currency, subject to a risk premium to be fixed by the Export Credits Guarantee Department. In both cases the credits would be provided by the commercial banks and would be guaranteed by the Government. The aggregate amount of the credits would be determined according to the general financial policy required by the national plan.

### *The Engineering Cycle*

The "post-boom slump" will be by far the most serious risk for Engineering to face in the first years of peace. As noted earlier, the replacement boom itself will stir this industry to such an extreme of activity that it will become the chief absorbent of munition workers. The expansion, however, can be neither maintained nor repeated, unless there be another war, for it is purely an after-war phenomenon. Once replacement is complete, Engineering will settle to a new lower norm consistent with the ordinary growth of industry. In a planned economy, labour which is employed in restoring destroyed factories and machines in the first phase will be transferred later to work in the new factories and to tend the machines. The actual manufacturing of machines will decline to a new tempo.

Thus in the most perfectly ordered system Engineering must face contraction two or three, or at most four, years after the war. Precisely when the slump in this industry will come depends partly on the extent of wartime devastation, and partly on the connection between the cycle of engineering and that of general trade.

Figures are available showing the time relation between the greater and the lesser cycle from 1924 to 1932. The year 1924 marked the high point of partial recovery from the post-war depression; and in July of that year there were 754,067 insured persons employed in Engineering. In June 1930 — the first year of the great world slump following the Wall Street crisis — 656,944 were employed, representing a fall of 13 per cent. In the same month of 1931 and 1932 there was a further drop to a level 28 and 32 per cent. below that of July 1924. The corresponding returns for Coalmining show a fall of 31, 43 and 47

per cent. in 1930, 1931 and 1932. In Metal Manufacture the proportions were 19, 41 and 42 per cent. In Shipbuilding they were 22, 54 and 63 per cent. From these figures it is seen that the effect of the trade cycle on Engineering was neither so marked nor so immediate as on certain other large industries.

The general failure of demand at the beginning of a slump may affect Engineering less than other industries because engineering products are often supplied in connection with long-period contracts, such as the extension of factories, railway development, irrigation and water supply. Since activity is thus spread over time, the post-war Engineering cycle may be expected to lag considerably behind that of general trade. There may be no *pronounced* decline in this industry until nine or twelve months after the break in the general upward swing of trade.

A guess might therefore reasonably be made that about three years after the end of the war Engineering must be prepared to fall back to a level of activity considerably below that of the war period. An employment roll of three-quarters of a million in the United Kingdom — the figure reached both in 1924 and in 1937 — is not likely to be much exceeded, though the Motor Car industry might add about one-third of a million. The total would be much greater than that of any other branch of manufacture; nevertheless it would represent serious contraction from the wartime level, at least for a large section of the industry.

South West Scotland might fare better than the rest of the country if the trend northwards were permanent. The wartime increase, indicated by a rise from 80,712 employees in June 1938 to 96,775 in June 1940, may not be wholly lost. However, some decline is quite inevitable.

### *Readjustment*

The question arises, then, What form of action can the industry take? On the assumption that about three years after the war Engineering will be compelled to reduce personnel by 15 per cent. and total output by a still larger proportion, what remedies or adjustments are open to it?

Since Engineering is not one industry but many, a general answer would scarcely seem possible. The classification of engineering firms

in a single industry seems justified only by the fact that all employ the same type of labour and produce capital equipment largely with the aid of iron and steel. They tend in consequence to suffer the same fluctuations in demand during a trade cycle ; but they are far from being equally endowed to make adjustment. In structure there are probably not two identical firms in the whole vast industry. Some require massive and extensive plant ; others need little more than a roof and a line of single-purpose machines. Some can expand or reduce output with insignificant change in cost per unit ; others are constructed with a specific optimum capacity and can neither expand without new buildings nor contract without incurring great loss. Some turn from one line of production to another as a regular practice ; others achieve efficiency by specialising in one product which calls for long experience and acquired skill. Few firms could be grouped together as having precisely the same range of output.

Owing to the great diversity of conditions, action by the industry as a whole, or even by large combinations of firms, is exceedingly difficult. Each firm is liable to be thrown entirely on its own resources in countering the effects of a slump. And each would seem to have the choice of four ways of action. One is to spread risks by greatly enlarging the firm's range of output, so that although it will inevitably suffer some depression when demand fails, loss may be limited by the abandonment of the poorest ventures. A certain firm in Glasgow, for instance, which makes feed pumps and heaters for marine steam engines as its traditional trade, has widened its scope to include steam-power plant for use on land, high-pressure air and gas compressors for injection purposes, and refrigerating plant. It also makes aero engines. Another important method is to spread risk by purely financial amalgamation with other firms, so that all units are to some extent insured through the enlarged range of output and through the possibility, if need be, of closing some works and concentrating output on the rest. A further option is to change from one kind of specialisation to another. Stirring accounts are heard of a certain company which, when thrown out of the market for electrical goods by powerful competitors, made a world-wide conquest by specialising in mine machinery. In another field, however, a firm which invaded the territory of specialists when its own was profitless is said to have met disaster. There appears to be no safe single-path to commend. Thus a fourth possibility, which is



sometimes best, is to make no structural change whatever in face of depression. It may be sound for a firm to go on concentrating on a limited range of work. Clearly there is no gain in "spreading" if the commodity produced, though itself not very varied, serves a demand so wide that the fluctuations are bound to be average. Cases in point are hydraulic machinery, certain types of machine tools, engines, motors, radiators, refrigerators and electrical equipment.

The degree of self-help possible to most firms is evidently limited. Moreover, few could face independently the remedy which would be best for the industry as a whole : namely, the permanent closing of poorly appointed works. To make this remedy effective there is need for a generous scheme of purchase. The success of the Shipbuilding scheme for buying and closing redundant yards did in fact lead to the discussion of similar plans for certain branches of Engineering. But none materialised. One reason may have been that whereas Shipbuilding is fenced around by firm boundaries, almost every branch of Engineering merges into others. Pirating is easy. Hence, if firms are closed at much cost to one section of Engineering, others which have borne no expense may invade its market, gain some of the benefit, and end by destroying the scheme.

To be effective a plan for adjusting the size of the industry to its shrunk market would need to cover every firm in the country producing engineering goods. It would call for control over new entrants, and might even entail the issue of a limited number of licences for each distinct type of manufacture. A system of payment for surrendered capital would need to be added.

Government aid would seem indispensable. Such aid might be given through an Engineering Reconstruction Corporation, the general purposes of which might suitably include the following :

- (1) To establish the extent of Government responsibility for assisting the reorganisation of particular firms which have been transformed for war purposes ; and to assess the nature and amount of compensation or assistance due to each firm.
- (2) To develop a scheme covering the entire Engineering industry for closing surplus plant.
- (3) To grant licences for the manufacture of engineering products.

- (4) To assist the formation of Export Groups and co-ordinate the work of different Groups.
- (5) To assist the financial amalgamation of companies, or the development of other forms of association which will enable firms to co-operate in promoting foreign sales and in distributing foreign orders equitably.
- (6) To set up a statistical and advisory department.

The control of the Corporation and the cost of its administration might be shared equally between the Board of Trade and the industry.

### *Government Aid*

The main assistance which the Government can give to Engineering, as to every other exporting industry in the United Kingdom, is to spread the fashion of planning among nations and so eliminate world slumps. It was seen earlier that in 1932 employment in Engineering was 32 per cent. below the level of 1924. This is the measure of the unemployment which will be *additional* to any loss of work caused by the contraction of the industry three years after the war, if another world depression comparable to that of 1932 is allowed to develop.

Thus, in order of importance, the promotion of world-wide national planning comes first and far outweighs any other consideration. Among special measures designed to assist Engineering in particular, the order in time, if not in significance, would seem to be (a) the provision of medium-term credit for recapitalising essential industries, (b) the provision of medium-term credit for financing engineering contracts secured abroad, (c) the formation of an Engineering Reconstruction Corporation, primarily to lessen the pain of inevitable contraction after the period of "replacement".

## CHAPTER XIII

### *Iron and Steel*

FROM experience gained in pre-war years the British Iron and Steel industry has a notable contribution to make to the development of national planning. In conjunction with the Board of Trade and the European Steel Cartel, the Employers' Federation representing this industry has evolved a comprehensive system of fixing *maximum* prices ; and price-fixing, it has been suggested, forms an integral part of any effective scheme of planning. In the earlier chapter on Principles it was seen that certain important methods of revitalising trade are liable to break down through causing a disastrous rise in prices. Indeed it is difficult to conceive of any means whatever whereby demand can be vigorously expanded without some eventual risk of inflation. However, if inflation can be prevented by the deliberate, voluntary fixing of prices, the most forthright methods of expanding trade are quite safe. The stronger the direct grip secured over the price structure, the more forceful and positive can the planning system become. Hence there is value in examining schemes already in use for fixing maximum prices, such as that of the Iron and Steel industry.

#### *Price Control*

In order to regulate the price of any material it must be possible to standardise its quality. In the Iron and Steel trades, virtually all crude and semi-finished materials are made to standard specification, while many finished and manufactured articles are also standardised. As a result it has been possible to include the price of every key product in the lists issued periodically by the British Iron and Steel Federation. Up to July 1937 twenty items were controlled, including basic and hæmatite pig-iron and seven main qualities of steel ; and the scheme has been extended into the war period, its scope being now wide enough for the exacting needs of the Ministry of Supply.

The capacity to fix prices manifestly depends not only on the nature of the material, but also on the degree of organisation achieved in the industry. Price agreements may be destroyed by competition from abroad, or from home producers who oppose the scheme.

Effective organisation for price control therefore involves both the regulation of imports and the development of loyal co-operation among the great majority of firms at home. In reality, the price-fixing arrangements in Iron and Steel have crowned a long process of evolution dating from 1932.

In that year, which marked the beginning of a phase of tariff defence in Great Britain, the Iron and Steel industry was promised protection if it undertook to reorganise. On 6 July 1932 the President of the Board of Trade stated in the House of Commons: "The position is that at a meeting with representatives of the industry on 3rd June, the Import Duties Advisory Committee made it clear that, provided the industry was prepared to carry through a satisfactory scheme of reorganisation, it was their intention to recommend such measure of protection as was necessary to make the scheme effective".

The Government's part in this arrangement was fulfilled through the issue of the Additional Import Duties Orders (Nos. 1, 2, 3 and 8), 1932, the general effect of which was to impose tariffs of 33½ per cent. on a wide range of semi-finished iron and steel products and of 20 per cent. on various iron and steel finished manufactures. The period of these duties was later extended on the understanding that the reconstruction of the industry would continue.

The industry, for its part, appointed a National Committee on 3 June 1932 to work out "Schemes of reorganisation and development, which, with the assistance of an adequate scale of tariff protection", might conduce to the restoration of the industry's "efficiency and prosperity". It was an imposing task. Owing to the great world depression, international competition had developed a severity unequalled, it seems, in the long history of the trade. In its report of 29 September 1932 the Committee quoted the following prices of "typical products on a gold basis f.o.b. Antwerp" for the end of August 1929, when trade was good, and for the corresponding date three years later:

August	Sheet Bars	Joists	Merchant Bars	Heavy Plates
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1929	4 17 6	5 3 0	5 13 6	6 6 0
1932	1 19 6	2 2 0	2 7 6	2 15 0

A price collapse of about 60 per cent. is indicated.

Moreover, it was clear that the promised reorganisation would be of little value unless it had a broad span both geographically and industrially. It would need to embrace the chief foreign competing countries. And in the domestic sphere, since the iron and steel group comprised several virtually distinct sections — tinplates, sheets, wrought iron, special steels, castings and forgings — the organisation would have to be repeated and adapted to each separate division in turn.

The first comprehensive measure was to establish a new constitution for the industry as a whole so that it might speak with one voice ; and in April 1934 the British Iron and Steel Federation was formed to promote organisation among producers of pig-iron, wrought iron and steel, and to secure the affiliation of allied groups. This new body replaced the former National Federation, being much strengthened by centralised control and by the appointment of an independent chairman.

The reconstruction which took place partly under the aegis of this transformed Federation, in the period up to the outbreak of the war, related to three main spheres of development : financial amalgamation or extension ; technical efficiency ; and co-operation, national and international, for the control of output and prices.

### *Amalgamations and Extensions*

As regards structural change, the nature of the reorganisation varied widely in different parts of the industry. In the Scottish section, which produces about 15 per cent. of the total output of British steel, the main development has been through amalgamation. At an early stage Colvilles bought the plate businesses of Beardmores and Stewarts and Lloyds, and acquired the ordinary shares of the Steel Company of Scotland and of the Lanarkshire Steel Company. The Scottish Iron and Steel Company entered into a vertical integration with Bairds.<sup>1</sup> In addition there are intimate financial connections between all steel works in South West Scotland and the shipbuilding companies which form both their chief market and their main source of supply of scrap iron.

In South Wales, which yields about one-fifth of the British output of steel, the long-established firm of Richard Thomas was able to

<sup>1</sup> D. L. Burn, *The Economic History of Steel-making*, p. 451.

purchase a number of tinplate works;<sup>1</sup> and the enterprise was further expanded by the erection of a fully modernised large-capacity continuous strip mill in Ebbw Vale.

Elsewhere there was much modernisation of plant favouring the concentration of output on efficient works. Among the principal centres affected were Shotton, Corby, Cardiff and Scunthorpe; but the development appears to have been general. *The Economist* of 17 December 1938 states: "It has been authoritatively estimated that the total expenditure on capital requirement over the period 1934-38 was about £30 millions, which, in relation to the capitalisation of the chief companies, is certainly an impressive figure".

### *The Rate of Improvement in Efficiency, 1931-8*

There is a manifest danger in fixing prices. If the price levels approved for any industry yield a safe profit margin for the bulk of the firms engaged, many may be disposed to ignore the need for unflagging progress. Such a result is not, however, inevitable. On the contrary, the profit may be the indispensable means of modernisation and re-equipment, and without it the industry may stagnate. In 1931 and 1932 conditions in Iron and Steel were so critical that the industry could neither borrow extensively for rehabilitation nor itself provide the funds. It was gripped in the vicious circle of inefficiency and lack of the resources to restore efficiency, and there seemed scant hope of its revival without external help. When the Government reviewed its claims, the case for some assistance was clear; but the fear was always present that an industry, once supported, might become a permanent invalid. Accordingly the grant of help was made conditional on the industry's continuing reorganisation, and the form in which it was given was such that the help might be withdrawn.

This precedent might reasonably be held to foreshadow a general principle in all price-fixing systems. Where a price is guaranteed by external support, it is a clear corollary that the favoured industry should give continuous evidence of advancing efficiency. In the case of Iron and Steel, part of the evidence has been quoted already. To this may be added certain figures relating to output per employee.

<sup>1</sup> The figures quoted in this chapter are drawn mainly from the *Annual Statistics of the British Iron and Steel Federation*, *The Economist*, the *Census of 1933*, the *Board of Trade Journal*, the *Report of the Import Duties Advisory Committee of 1937*, and various Command papers.

In the production of pig-iron and ferro alloys, the net output of blast furnaces in the Census year 1930 was £3,948,000; and this was produced by 69 establishments with a total employment roll averaging 19,362 for the year. In 1935 the slightly higher amount of £4,083,000 was produced by 48 establishments with a staff of 15,815. Net output per employee rose from £204 to £258. This remarkable evidence of increased efficiency appears to be little affected by changes in prices between the two dates. In 1935 the Board of Trade Index for iron and steel prices was only 0.5 per cent. above the level of 1930, and the price of Cleveland pig-iron (No. 3 foundry) was the same in June 1935 as in June 1930.

A further sign of improvement is economy in fuel consumption. In 1931, 37.58 cwt. of "coal equivalent" were used in the production of one ton of pig-iron. In 1938 the corresponding figure was 33.45.

As regards the manufacture of steel, net output per employee in steel smelting and rolling rose from £189 in 1930 to £250 in 1935.

A rough index of fuel consumption is given by *The Economist* of 17 December 1938, the index being compiled by comparing the amount of raw coal (or the coal equivalent of coke) used in steel and iron works other than blast furnaces with the current output of steel ingots. The amount of raw coal or coal equivalent used per ton of steel produced in 1937 was 25.7 per cent. lower than the corresponding figure for 1929.

Other branches of Iron and Steel seem likewise to have shown improvement. In tinplate manufacture, the production index divided by the employment index rose from 118 in 1931 to 158 in 1937. In the manufacture of wrought iron and steel tube strip there was an advance from 107 in 1933 to 155 in 1937.<sup>1</sup>

### *Organisation for the Control of Output and Prices*

Unity among home producers is the first requisite for any effective control of prices. Prior to 1932, the Iron and Steel industry had not, it seems, made much advance in the field of co-ordination. Individualism had been its long-cherished law. And it was the intensity of competition during the slump beginning in 1930 which had

<sup>1</sup> *The Economist*, 17 December 1938.

been largely responsible for the dire condition of the industry. A thorough transformation was necessary, especially in view of the aim in mind, which was to establish prices which would become both *maxima* and *minima*.

In times of prosperity, a *maximum* price will be endangered if customers are in such pressing need of supplies that they will pay extra for priority. Furthermore, the price may be undermined if costs rise disproportionately in different parts of the industry : some manufacturers will wish to compensate themselves by raising prices above the agreed level. In times of slump, a *minimum* price may crumble through competitive undercutting. Against these dangers the only protection is the development of a lasting solidarity throughout the industry ; and this was the first task to be achieved in the reorganisation beginning in 1932.

Some years passed before the end was gained. However, in 1937 the Import Duties Advisory Committee was able to report : " Until reorganisation, the Federation had no jurisdiction over the trade associations in regard to prices, but within the last fifteen months it has secured the assent of the affiliated associations to a more direct interest in this matter and they have now undertaken not to increase prices without prior consultation with the Federation ".

In 1937, thirty-three producers' associations had already allied themselves with the Federation and had approved the above provision. Moreover they accepted its full implications. Collectively and severally they evolved and endorsed a system whereby the Federation's Headquarters, in conjunction with the Import Duties Advisory Committee, laid down the maximum price for each key product in the industry. They even gave these bodies access to their books in order that prices might be based on costs.

" So far as the scheme has extended to the date of this Report," states the Advisory Committee, " the associations concerned have readily accepted the proposal for investigation of their costs, and the concerns selected as representative producers in each section have, we are assured, given every facility to the accountants carrying out the investigation."

The actual procedure for the fixing of prices, in its original peacetime form, may be described briefly as follows. The affiliated associations, having acquired a high degree of confidence in their independent



chairman and his committee, make their accounts open to him. Indeed he is allowed to know more of their collective position than they know themselves. They then argue with him as to a suitable price for their output in the coming months. A tentative figure is reached for each product ; and the chairman of the Federation then submits the figure *with all the data relating to costs* to the chairman of the Import Duties Advisory Committee. The Committee discusses the price proposed, sometimes approving it forthwith, sometimes suggesting a modification.<sup>1</sup> The approved or modified price is confirmed in a letter from the Committee to the Federation. And it is accepted.

### *Organisation for the Control of Imports*

Unless protection is specially arranged, the fixing of a standard price in one country alone may seriously weaken the home industry in face of foreign competition. In times of scarcity home consumers will be prepared to pay, as in 1937, import prices much in excess of the domestic maximum. Hence the foreigner can make a profit denied to the home producer. With this the foreign competitor may gain strength for a succeeding slump, setting aside reserves and modernising or re-equipping his enterprise. Thus when depression comes he is doubly fortified in the attempt to undercut the fixed domestic price and in gaining a large share of the dwindling market. It is therefore a *sine qua non* of effective price-fixing that imports be controlled.

In the case of Iron and Steel, the foundation for international control was laid in 1932 when import duties were imposed provisionally on a wide range of ferrous products. Part of the purpose of the import duties on steel, which were further raised by Order of 20 March 1935, was to enable the British Iron and Steel Federation to secure an agreement with the European Steel Cartel for the voluntary limitation of imports into Great Britain. After long negotiation a Memorandum of General Agreement between these parties was signed on 31 July 1935.

The General Agreement stipulated that imports of certain steel products into Great Britain from the four countries represented in the Cartel — Germany, France, Belgium and Luxemburg — should be restricted to 670,000 tons in the first year and 525,000 tons in subse-

<sup>1</sup> Annex IV, Cmd. 5201, 1936.

quent years. The rates of duty on the agreed imports were to be reduced wherever practicable to 20 per cent.

This plan to limit imports from Cartel countries involved the risk, however, that imports from non-Cartel countries would grow and destroy the value of the Agreement to both parties. Accordingly it was decided to introduce a *licensing system* to regulate the volume of certain iron and steel imports. A clause was embodied in the Finance Bill of 1936 providing for the reduction of import duties on any consignment of specified iron and steel goods, subject to its being accompanied by "a certificate of origin and a quota certificate". Quota certificates were distributed to foreign producers in accordance with the general scheme of limitation.

### *Fair Distribution of Imports*

Restriction of imports by a licensing system calls, in turn, for a system of rationing supplies. In times of scarcity, as in the "famine" year of 1937, the prices of imports will ordinarily rise above the fixed domestic price; and in times of glut, import prices will fall. When domestic prices and import prices differ, injustice will be done to home consumers unless there is an equitable distribution of the lower-priced goods. And even when domestic and import prices are fixed at the same level, there will be need for rationing in a time of scarcity, if the prices are kept low. In any event it is desirable to have a system in being at all times for the control of both prices and distribution.

To avoid injury to any importer, the British Iron and Steel Federation, under Article IV(d) of the General Agreement, itself undertook to purchase all imports from the Cartel and to share the responsibility for their distribution in Great Britain.

In view of the monopoly powers thus conferred, the Federation, in response to the request of the Board Trade, agreed to the following undertakings :<sup>1</sup>

- (a) To ensure a sufficiency of supplies of steel to meet all reasonable requirements of British consumers.
- (b) To arrange for the equitable distribution of imports among all classes of consumers without discrimination as to whether or not they were members of an affiliated association.
- (c) To arrange that the prices of the agreed imports of foreign steel

<sup>1</sup> Cmd. 5201.

should not exceed those charged for corresponding British steel to members of the Federation.

### *Commentary on the Scheme*

All the dangers inherent in tariff protection arise in full force in the price-fixing system just reviewed : the dangers of making an industry permanently dependent on State support, destroying its incentive to become efficient, raising its prices above world prices and causing it to become a burden on other home industries, and thus compelling other industries to invade the field of politics with a view to gaining similar support. With some justification, therefore, this scheme has been watched with apprehensive and critical eyes.

As regards the actual level of prices established during the pre-war currency of the scheme, the experience was too short to permit final judgment. Complaints were made in 1938 that when other prices were falling sharply, iron and steel prices remained unchanged. On the other hand it could be contended that, during 1937, iron and steel prices would have risen to great heights under free competition, whereas in fact their rise was not extravagant. The general effect of the scheme was to limit both the rate and the width of price fluctuations at all times.

A further criticism is that since there is no conceivable method of "scientifically" adjusting prices to costs, the actual fixing of prices is left to the personal discretion of individuals. In view of the dependence of costs on the expenses of firms comprising different processes and employing different materials in the manufacture of many products and by-products, it is impossible to draw an accurate distribution-of-costs curve for any separate product. Even were it possible to trace a curve showing, for a given commodity, the comparable costs of highly efficient, moderately efficient and inefficient firms, the fixing of the price of the commodity in relation to this curve would still be a matter for individual judgment.

True as these statements may be, they give no valid reason for rejecting the principle of fixing prices as far as possible in relation to costs. They prove only the need for an impartial, or fully representative, arbiter. Price-fixing is adopted in all war emergencies and will be needed in the emergencies of peace ; and it is desirable that the levels chosen should be based where possible on costs. The exact position

of each price will of course be decided according to the fair judgment of some widely representative authority.

Whatever may be said for or against the scheme examined here, it must be acknowledged to be a typically British product. It was voluntary. It had no foundation in law, apart from the support gained from tariffs and import quotas. The written agreements on which it was based were devoid of detail. It "emerged" because the Federation was fortunate in being served by an enterprising chairman whom all trusted. This chairman took the first impact of proposals for prices which might be an overcharge; and when he had moderated them his tentative findings were passed on to a higher authority: the Import Duties Advisory Committee. This Committee "emerged" as the final authority because it was the Government's adviser on all benefits to be accorded to the Iron and Steel industry. It was the obvious court of reference.

The system was thus a fairly spontaneous growth; and there is one instruction it forcefully conveys. Any future general scheme of price-fixing will be strong in proportion as it reproduces the same psychological features. If it can be made voluntary and largely self-imposed, its prospect of survival will be much enhanced. Above all, it is suggested, the price-fixing scheme should be operated through individuals who are industry's own choice.

### *Relevance for a National System of Price-Fixing*

Thus it is recommended that, as part of a comprehensive national plan, all industries, working under the aegis of an Industrial and Economic Parliament, should evolve price-fixing systems similar to that of Iron and Steel.

Each industry might first gather returns from its constituent firms showing their costs. On the basis of these returns some independent judge appointed by the industry might then be invited to consider suitable price levels for the different branches of the industry. Finally, his judgments might be passed on to a Price-Fixing Board appointed by the Industrial and Economic Parliament to act as the ultimate authority.

As noted, any plan for fixing prices which are to be both *maxima* and *minima* calls for some control of imports. The simplest method would be to establish an Import Board for each group of commodities.

The work of all Import Boards would then be directly supervised by the Price-Fixing Board ; but this, in turn, would inevitably be subject to the overruling decisions of the Board of Trade regarding all questions of quantities imported.

As regards the maintenance of efficiency in industries with fixed prices, various allied methods are suggested. One is to develop professional services for advising individual firms on problems of business efficiency. The study of these problems should, it is felt, be organised on the basis of an independent profession. Personnel who have qualified in the profession might then form the nucleus of Consultancy Services set up to advise managements in all parts of industry. Two types of Service are envisaged. In each separate industry — as, for example, in Agriculture — technical advisory departments might be formed to give advice on matters which are specific to the industry itself : processes of production, the use of materials and power, machinery and matters of engineering and construction. In addition, industry as a whole might assume responsibility for promoting the development of a more detached and comprehensive Consultancy Service which would advise directorates on matters common to all industries : business organisation, planning, personnel management and welfare, finance, marketing and distribution. Important precedents exist indicating that there is great scope for professional consultancy of this kind.

A peculiarly searching method of securing technical efficiency, applicable to firms with stereotyped processes of manufacture, is that adopted by the Ministry of Munitions in the last Great War :

A system of cost accounts was devised which should yield for each process of shell manufacture a statement of the output, its cost in materials, wages and establishment charges, and the extent to which each of these items was affected by faulty material or defective workmanship. The average cost of each process through which the shell passed was ascertained, and the addition of these costs gave the total cost of the shell. . . . This method permitted the closest comparison of the costs of each operation, not only at each factory week by week, but also as between one factory and another. The results thus indicated the relative efficiency of the management, and within each factory provided the managers with a clue to any leakage or extravagance.<sup>1</sup>

<sup>1</sup> *Fourth Report from the Select Committee on National Expenditure*, 23 January 1941, p. 18.

## THE FUTURE OF IRON AND STEEL

In any study of reconstruction in the Iron and Steel industry, it seems sound to reserve for separate treatment the "manufacturing" branches of it which include, in particular, (1) hardware, hollow ware, metallic furniture and sheet metal, (2) chain, nail, screw and miscellaneous forgings, and (3) wrought iron and steel tube manufacture. Many firms in these sections are engaged in manufacturing finished products by processes little resembling the mass-production methods of steel-making plants. In structure some of these smaller manufacturing units have more in common with engineering firms than with the rest of Iron and Steel; and it is suggested that they should be brought within the scope of the proposed Engineering Reconstruction Corporation. Selected iron and steel "manufacturing" groups might be regarded as engineering firms for the grant of benefits through the Corporation, and for purposes of rationalisation.

The proposals below relate to those branches of the industry which handle massive raw material with the aid of titanic instruments and great heat. Blast furnaces, steel smelting and rolling mills, and large-scale foundries and forges may be grouped together in this category.

For all such works, economy consists primarily in the achievement of one condition: full-capacity production of an unvarying output. In order to conserve heat, avoid the burdensome costs of "changing over", secure regular markets for by-products and make full use of exceptionally expensive plant, it is imperative that each works should operate continuously at full pressure, and should produce an unvarying commodity. This conclusion has become a commonplace among all who have examined the industry; but the main interest here is to emphasise its international implications.

The considerable lead which the United States has gained in the efficiency of steel production is no doubt largely due to its presenting the greatest free trade area, in terms of industrial output, in the world. Some thirty continuous strip mills are operating in that country. It has been estimated that the size of the peacetime market for British steel might justify the establishment of two such mills in addition to that of Richard Thomas.<sup>1</sup> Were there a United States of Europe, or, alternatively, a market for steel as wide and open as might exist under

<sup>1</sup> *The Economist*, 3 December 1938.

European unity, it seems that many more might with profit be built.

The tendency of international control so far, apart from action during 1937, has been to limit international trade and thus divide and restrict markets. If there is any logic whatever in the above reasoning, this tendency should as soon as possible be reversed. The measures adopted by the British Iron and Steel Federation and the Board of Trade appear to have been indispensable as first steps; and the re-organisation which was thereby prompted seems beyond all cavil. Nevertheless, they may be an important stage in progress leading to a further phase of a quite different order.

If the aim is the utmost concentration of output in a few plants so that mass production may be used to the full, it is questionable whether the Cartel system can yield the desired result. Under a Cartel each firm is autonomous in the sphere of management and production. Its main concern is its own efficiency; and efficient production calls for quotas of output of the type which will exactly suit its particular position and structure. Thus the Cartel, representing all such firms, must distribute favours equally, dividing up orders so that each firm has a just share of those for which it is specially equipped. When, during a slump, demand shrinks, orders continue to be distributed in fair but reduced amounts to the same works, whereas true economy would call for their concentration on fewer plants.

Such concentration can be achieved by creating a single financial interest through the amalgamation of all steel-producing units. Nothing less would seem likely to avail than a mammoth European Steel Trust. In other words, it is proposed that the main steel-producing works in Great Britain, France, Germany, Belgium, Czechoslovakia, Poland, Italy, Sweden, Luxemburg and elsewhere should be combined under a single financial control. Complementary to this international amalgamation, there might be established a European Pig-iron Trust.

The precise relationship between these Trusts and the European Government or Governments cannot be suggested till it is known what international organisation will control the production of munitions after the war. If the post-war armaments industry of Europe is centralised, the central Munitions Authority in Europe will be one of the chief buyers of iron and steel. It will need to govern the prices of its own purchases and might suitably represent the public interest in keeping a general surveillance over iron and steel prices.

The Munitions Authority, or, in its absence, some appropriate body representing European Governments, would need to introduce a costing system for iron and steel contracts similar to that of the British Ministry of Munitions, mentioned above. And this might be reinforced by the creation of a permanent technical Department for researching into the production of ferrous goods, together with a Consultancy Service designed to promote efficiency in all branches of the industry in Europe.

It would perhaps be necessary, further, to introduce a licensing system for restricting the quantity of iron and steel made by non-members of the European Steel Trust. If certain "fabricating" branches of the industry found it economical to produce their own steel, they might be allowed to do so under licence.

Although the structure of the industry and the controls under which it might work cannot be defined in the absence of knowledge of the post-war political structure of Europe, the desirable trend can at least be indicated. Among the chief objects to be attained by European unification are :

- (1) European agreements designed to *increase* the volume of inter-State trade, and thus to widen the market for the output of individual efficient firms.
- (2) The replacement of the Cartel system by vast Trusts capable of concentrating work on modernised plants which are equipped for mass production.
- (3) The control of the prices of iron and steel throughout Europe by special costing methods.
- (4) The promotion of technical efficiency through centralised research into methods of production and business organisation.



## CHAPTER XIV

### *Coalmining*<sup>1</sup>

UNDER an efficient system of planning it may happen that an industry which is improving rapidly in organisation and equipment nevertheless shows a steady decline in numbers employed. When technical progress leads inevitably to a reduction of staff, the plan for the industry needs to be completed by arrangements for the immediate absorption elsewhere of the discharged labour. Once this condition has been thoroughly fulfilled, there can be no grounds whatever for deploring the contraction of an industry if it is one which involves exceptional risk or fatigue. Coalmining is notoriously of this class.

That further contraction in numbers will be the lot of the Coalmining industry seems on every ground probable. In Great Britain, whereas there were more than a million miners in employment before the last war, only about three-quarters of a million were at work in 1935 and 1936. The decline in mining employment in the world as a whole was less serious, but nevertheless not to be ignored. According to the calculations of the International Labour Office covering fourteen principal countries, 3,139,000 workers were engaged in the mining of coal in 1935, compared with 3,586,000 in 1913.

As regards output, the total world supply of coal (including lignite converted into equivalent coal units) was 6 per cent. below the 1913 level in 1935 and 2 per cent. above in 1936. In Great Britain the fall in output was more than 20 per cent. in both 1935 and 1936.

While production was thus declining — absolutely in Great Britain and at least relatively to general industrial production in the rest of the world — progress was being made almost universally in mining technique and equipment. Output per man-shift or day rose

<sup>1</sup> This chapter is based on a memorandum by Phyllis Deane, but it has been revised since the publication in June 1942 of the Government's proposals for Coalmining. The sources used by Miss Deane include the report of P.E.P. on *The British Coal Industry*, 1936; Jones, *The Coal-Mining Industry*, 1939; I.L.O., *The World Coal-Mining Industry*, 1938; Hoar, *The Coal Industry of the World*, U.S. Dept. of Commerce, 1930; *The Colliery Guardian*; *Coal and Colliery News*; the *Annual Reports* of the Secretary for Mines and other official publications issued since 1930.

substantially during the quarter-century following 1913, according to the evidence of countries which publish relevant statistics. In some areas the increase exceeded 60 per cent.

Most of the causes of technical progress in coalmining are also, unfortunately, causes of waning employment. Mechanisation undoubtedly accounts for the greater part of the improvement; and every new machine replaces men. On the Continent, especially, there have been rapid advances in the use of mechanical means of coal-getting, with a consequent slackening in the demand for labour. It is true that the economies realised permit some reduction of prices, which in turn stimulates the demand for coal. But most markets for coal are highly unresponsive to a fall of prices in the short run; and even in the long run the elasticity of demand may not be great.

The chief feature of the demand for coal is that it is largely "derived". Purchases of coal for domestic uses represent not much more than one-fifth of total consumption. The demand for the remainder is derived from industries concerned with the production of other commodities. Since the cost of coal is but one element in the price of the commodities, even a substantial change in this cost does not much affect the *immediate* demand for coal. In the long run, however, when industries have had time to alter their plant to take different fuel, substitution may be considerable.

It follows that a decline in the price of coal, brought about by mechanical improvements, will at least check the current process of substitution of other forms of power and may even reverse the process. In practice, the effect in the mines is that whereas men are at first thrown out of work whenever fresh machines are installed, at least some are drawn back in due course to satisfy a recovering demand for coal.

Another form of technical progress which weakens the demand for labour is economy in the use of coal. The rise in fuel efficiency has been especially marked in electric public utility plants and in rail transport, while in iron and steel manufacture there has been substantial coal economy both through the greater use of scrap in place of iron ore and in the reduction of ore to pig-iron. It is stated that in the United States the average fuel efficiency of industrial manufacturing and railway transportation rose by approximately 33 per cent. between 1909 and 1929.

Technical progress, considered in its widest sense, is again implicit

in the replacement of coal by other sources of energy such as oil, natural gas and hydro-electric power. Socially, the rise of these as the basis of industrial energy is to be welcomed in so far as they involve less risk in the process of production and diminish the pall of smoke which blackens every industrial town.

There appears to be no escape from the conclusion that the advance of efficiency, whether in the collieries themselves or in fuel-consuming industries, must in general affect adversely the employment capacity of the mines. Improvement in technique can never be put forward as a method of solving the miners' unemployment problem, except in the few instances where it may lead to the discovery of totally new uses for coal.

In these circumstances it is highly relevant to ask, with regard to the planning of the industry, what are the precise purposes to be served by the planning.

### *The Objects in View*

Where an industry is threatened with a steadily dwindling employment capacity which cannot be remedied by improved equipment or method, the ends to be gained by planning may be grouped under three principal headings: (1) further advance in efficiency (despite the effect on employment), (2) transference of surplus labour to other trades offering equal inducements, and (3) protection of labour standards in the industry. These points must be considered with special reference to British mines. In this country the imperative need for action is emphasised by the fact that some coal areas are becoming exhausted.

### I. EFFICIENCY

The improvement of mining technique is one of the main purposes to be gained through the Government's reorganisation scheme announced in June 1942. The scheme provides for the assumption by the State of "full control over the operation of the mines". This control is to be effected through the responsible Minister assisted by a Controller-General. The Controller-General is in turn aided by four chief officers, including a Production Director who is mainly responsible for efficiency.

It is in the separate Regions, however, that the chief executive

organisation is to be developed for promoting technical progress. To each Region is appointed a Controller and, under him, a Production Director. The Controller is given mandatory powers. His orders are issued to a single person in each colliery undertaking, this person being nominated by the owners as their representative. It is not intended that the Controller should be burdened with the details of day-to-day management of the pits. Such work is left to the existing pit managers, who can be removed at the instance of the Controller.

One method proposed for increasing efficiency is that of "extending mechanisation". It appears that much remains to be done in this sphere. Before the war the British industry was seriously under-mechanised, if a comparison with its foreign competitors gives a fair basis of judgment. The proportion of coal output won by mechanical means in Great Britain was 47 per cent. in 1934, compared with 97 per cent. for Germany in 1934, 96 per cent. for Belgium in 1933 and 91 per cent. for France in 1931. Manifestly, Regional Controllers with machinery at their disposal should be able to effect revolutionary improvements in some collieries. In wartime, however, coal-cutting machinery may be scarce. And in peacetime — if the scheme continues — there may arise difficulty in compelling private coal-owners to install and pay for machinery. Presumably it is not the intention to distribute the machines gratis.

Another means of raising efficiency recommended under the scheme is the "grouping of pits" so that all collieries may secure the advice of the most competent mining engineers in the district. This proposal has a long history of propaganda behind it, and was in fact one of the chief subjects of legislation under the Coal Acts of 1930 and 1938. As early as 1925 the Royal Commission on the Coal Industry made an examination of actual results of colliery workings, finding that "the larger undertakings remain substantially more profitable on balance" and that "practically all the heavy losses are confined to the smaller undertakings". The British Government was sufficiently convinced of the accuracy of these findings to appoint a Coal Commission for encouraging and promoting amalgamation.

Abroad, concentration of coal production has advanced rapidly. In Germany the average yearly output per colliery enterprise has increased more than sixfold since the beginning of the century; by 1929 an annual output of 160 million tons was being raised by 170

mines. In Poland 95 per cent. of the output is raised by 23 mines, while the Dutch mines have an annual output approaching 2 million tons per mine. The British movement towards combination has been much slower. Towards the end of 1937 the Mining Association reported that 77 per cent. of the national coal output was being produced by 129 undertakings, compared with 84 per cent. by 323 undertakings in 1923. Part at least of the great comparative increases in productive efficiency abroad must be due to increased concentration. The increase in output per man-shift during the period 1913-34 was 7 per cent. in Great Britain, compared with 77 per cent. in the Ruhr, 63 per cent. in Polish Upper Silesia, and 87 per cent. in Holland. The increase in Poland is particularly significant since mechanisation proceeded there as slowly as in Great Britain.

The principal obstacle to amalgamation in Great Britain has been the persistent reluctance of mine-owners to collaborate with the Government in securing unification of control of mines. The Commission of 1925 recommended an element of compulsion from outside the industry, to be brought into operation after, say, three years, if it were shown by experience that it was desirable to do so; and it was intended that the Coal Commission should be able ultimately to enforce its schemes where no co-operation was forthcoming from private enterprise. The ultimate power of compulsion, however, was vested in the Railway and Canal Commission Court, which had to be satisfied that the amalgamation was in the national interest. In practice, the legal machinery necessary for giving effect to a decision of the Coal Commission was so cumbrous that its coercive powers were completely ineffective. Part II of the Coal Act of 1938 modified the machinery of the 1930 Act, but as late as 1939 the Coal Commission was still engaged in drawing up tentative plans for the approval of the mine-owners.

### *Marketing and Distribution*

In the sphere of marketing and distribution there have been great advances during the pre-war period, the main development being through the District Selling Schemes which have operated since 1936. These were organised by the coal-owners with the express aim of putting the industry on a proper financial basis. In giving statutory sanction to the mine-owners' schemes, the Government laid down

three conditions : (a) they were to cover all coal-owners in each district and have a measure of permanency ; (b) they were to be so drawn that evasions could not take place ; (c) they were effectively to prevent inter-coliery competition.

The precise form of the selling schemes differs from district to district. In Scotland and some English districts collieries make their own sales, subject to control by a Sales Committee (appointed by the District Executive Board) which, through a permit system, prescribes the price below which each owner may not sell his coal, the tonnage that may be sold, the destination to which it may be sent, and other general conditions of sale. In other districts output is handled, either for the district as a whole or for a given group of undertakings, by a central selling agency.

In the Government's wartime scheme as described in a Command Paper dated 3 June 1942, marketing and distribution are ignored apart from references to the appointment of Directors for dealing with the distribution of coal. The reason for the omission, which was equally noticeable in the subsequent House of Commons debate, may be that little economy is to be expected through further reorganisation. The wastes of competitive distribution, for instance, may be exaggerated by confining attention to domestic deliveries. About 80 per cent. of deliveries are in the form of large loads to industries. In this service there may be some duplication, but it is probably not seriously wasteful. Some rationalisation of domestic deliveries, primarily intended to avoid overlap in transport, has been made possible through the Ministry of Fuel and Power Order of 12 June 1942.

### *Commentary on the Scheme*

The 1942 scheme is manifestly a wartime compromise. It has one fundamental design : to secure a certain percentage increase in the output of coal for the rest of the war. This can probably be done by concentration on the most productive mines and seams ; and if the State administration can succeed in compelling mine managements to work their best seams, the end will be gained.

Nevertheless, the method of control will be completely unworkable in peacetime. Under the scheme the industry's financial structure remains unchanged. The mine-owners continue to own the mines and draw their profits. They appoint and pay their managers and

agents. They engage and pay the wage-earning staff. Yet in spite of such financial responsibility, they do not control the pits. This is done by managers working under direct orders from the Regional Controller. In emergency such a plan may survive ; but there is not the least prospect of its persisting when the special compulsion of war disappears.

The choice is to go forward or back. Withdrawal might not mean retiring all the way. For instance, if the grouping of pits for technical advice is well advanced by the end of the war, the new divisions might become the basis for compulsory amalgamation. The Controllers with their technical staffs, while losing their mandatory powers, might become the nucleus for a Consultancy Service for giving counsel on the practical application of the results of research, and on appropriate machinery for use in particular mines — the machinery being provided by the State on attractive terms.

As against this, the argument for pressing forward after the war to complete State-ownership is strengthened by the fact that Coalmining is among the easiest of industries to nationalise. It deals with a single form of commodity. The method of production is in large measure stereotyped. Administration in the collieries can be stereotyped. Distribution to industry is mechanical when the industries know exactly what they want. Distribution to houses will be greatly simplified when there is only one distributor. The complicated structure of District Selling Schemes will disappear. In its place there will be established in all parts of the country State offices exhibiting comprehensive lists of the available types of industrial and domestic coal graded according to quality, the prices being quoted according to quantity ordered and place of delivery.

The nationalisation of the actual production of coal has advanced already to the point at which completion requires only the substitution of Government scrip for the shares of private mines. This would involve the valuing of every mine and the purchase of the mine by the issue to the mine-owners of Government stock carrying a fixed rate of interest. The assets of distributors might be bought in the same way.

The immediate effect at the mines would be scarcely noticeable. The pit manager would become aware that his salary was derived from the same source as his orders, and that there was only one master to

consider ; and a similar understanding would enter the consciousness of the mining staff.

The long-run effect would depend on motive. What, it may be asked, will be the ultimate result of converting 700,000 citizens into Civil servants ? It is impossible to predict. Every man's opinion on this is as valid as his neighbour's.

Certain forecasts in the purely economic sphere may be hazarded. Almost certainly nationalisation will lead to a rapid increase in the use of machinery and to further economy through removal of all boundaries between pits and the application of the known results of research to every undertaking throughout the country. Minor economies may be gained through the lapse of directorships and through the reduction of personnel required for distribution. It seems highly improbable, however, that these gains will be reflected in a lower price for coal. A substantial rise in wages and in standards of safety and hygiene in the mines is more likely as the first-fruit of any economy effected. In addition, there may be a reduction in hours of work. To expect any considerable strengthening of the industry, say, in international competition or in employment capacity would be mistaken.

The introduction of fresh machinery will much reduce employment in the mines, though the effect may be partly offset by shortening the shift. In general, a Government which takes over Coalmining must be prepared to face an unemployment situation not less serious than that which would confront the industry under private control. At some stage after the war there will arise in an acute form the problem of closing down exhausted and unprofitable mines, and of training and transferring the workers ejected from those mines.

## II. LABOUR TRANSFERENCE

Nationalisation would throw full responsibility on the Government for every community left stranded around the shell of a mine. The State will be much better equipped than private enterprise to assume this burden ; for when all pits are under one control, vacancies in newly expanded areas will be rigidly reserved for miners from exhausted pits. If there is a growth in general unemployment in the industry, this will be partly offset by the complete cessation of recruitment at all points, and by the normal superannuation of older miners.



Since transfers *within* the industry will be more readily effected under nationalisation, the problem of transference to other industries will assume smaller proportions. Nevertheless the need for drafting miners elsewhere may arise at any time ; and the Government should acknowledge as a public duty the task of training and re-equipping the individuals concerned.

Whether nationalisation takes place or not, one urgent measure is proposed for application in any event. It is the acquisition by the State of every mine which is about to be abandoned by private owners, so that the State may become wholly responsible for the personnel attached to the mine. Under this scheme the State would become a specialist in exhausting unprofitable pits, through the medium of a mobile technical administration equipped with special machinery. Mines purchased at a nominal price would continue in operation as State Industries<sup>1</sup> until they could yield no more coal. Meanwhile, State Industries of a more varied kind, including agricultural training estates, would be established in the neighbourhood of the emptying mines. Through these industries miners would be trained for other occupation.

### III. LABOUR STANDARDS

The protection of working standards in the Coal industry is largely an international task. Competition between European coalmining centres is especially acute, as is evidenced by the swaying fortunes of different areas following the occupation of the Ruhr, the British Coal Strike of 1926, the return to the gold standard and other causes of exchange-rate variation. Whereas each coal-producing country may preserve a fairly complete monopoly of its own market, there is a large non-producing area in Europe in which competition is virtually unrestricted. In the past, the attempt to command a full share of this international market has led to intense price-cutting, and this in turn has provoked perpetual assaults on wages and other working standards.

Progress towards stability demands in the first place an international agreement on export prices, which may require reinforcement by a quota system for exports. Past failure to reach agreement appears to have been due often to the conviction held by nations temporarily in distress that if they wait a little longer their bargaining position will

<sup>1</sup> See pp. 326-7.

strengthen. If their forecast proves true, the recovery of strength is at the expense of the coalfields of other nations, whose turn it then is to demand delay.

Nationalisation of the mines in Great Britain might pave the way for international agreement by lessening somewhat the element of caution in bargaining. Technically the problem should not prove obdurate, since experience in fixing prices and distributing quotas is extensive in Europe, and few countries will be involved in the settlement. A pact between Great Britain, Germany and Poland alone would cover much of the relevant area.

### *Hours*

The preparatory work for the reduction of hours has been done already by the International Labour Organisation. Through its Conference system a Draft Convention has been prepared providing for weekly hours of  $42\frac{1}{2}$  from bank to bank — or an average of 11 shifts of 7 h. 45 m. per fortnight — with elastic provisions for the application of this basic figure. The text was put before the International Labour Conference in June 1939, but in view of the international situation, and of its corollary — the fact that Germany had in March increased hours of work in coalmines to  $8\frac{1}{2}$  in the day — few countries were prepared to accept any commitments and consideration was postponed to a more propitious moment. Opinion at the Conference, however, was favourable to the proposed Convention, and plans for its discussion should be put into operation immediately after the war when all the interested parties are represented. In view of the prospect of extreme scarcity in the first months of peace, it may not be possible to secure immediately the necessary signatures to the Convention as it stands. In the later contraction period, however, all excuse for further delay vanishes, and the Convention as finally drafted should be brought into operation at once. As contraction proceeds the process may be assisted, and the danger of unemployment diminished, by further reductions in hours.

### *Wages*

The existence of international arrangements for the fixing of coal prices will much simplify the task of preventing a repetition of the disastrous wage-cutting which took place from about 1926 onwards.

There are three conceivable ways of checking competitive wage reductions in Europe. One would be to form a European Miners' Federation representing the operatives in negotiations with a corresponding European organisation of mine-owners. The aim of the Federation would be to call a halt to any downward adjustment of wages which had not been referred to the international negotiating machinery. The international funds of the Federation would be used in defence of the position at any point on the European front where there was failure to comply with this condition.

A second method, available to Governments, would be to establish a national minimum wage for particularly arduous and dangerous work (see Volume II). Such a minimum, applicable to all underground work, would vary according to the economic development of each country ; but it would nevertheless establish a limit to the downward thrust of wages in the several coalfields.

A third method would be to prepare in each coal-producing country an index of sheltered wages — comprising, say, the wages of builders, printers, railwaymen, municipal and public utility employees, clerical staff and professional workers — and to link the minimum wage for miners to this index, just as some wages are linked to the cost of living. Such a scheme might be adopted by voluntary agreement in the industry ; but legal sanction would strengthen the position and favour the international spread of the scheme.

These three methods are not mutually exclusive. It is suggested that they could, and should, all be pursued at the same time by parties interested in the industry.

## CHAPTER XV

### *Rail and Road Transport*

By PHYLLIS DEANE

#### *Railways*

DURING the last war the trend towards monopoly in the British Railway system, already fostered by a high degree of State intervention, was much accelerated through the integration of controls imposed by the needs of wartime efficiency. Since 1921 the whole main-line system has been divided among the four great companies, which are, in order of size, the London, Midland and Scottish; the London and North Eastern; the Great Western; and the Southern Railway. A fifth great concern is the London Passenger Transport Board, which deals with all the main forms of transport in the London area.

Between the railway companies there is little competition. Although some overlap must occur in the vicinity of the larger industrial centres, it is broadly true that each monopolises its own routes and serves a particular well-defined section of the country. The companies work smoothly together, constantly passing traffic from one set of tracks to another and observing the same rate schedule, almost as if they were under one management. Such delay as is caused in changing traffic from one line to another is reduced to a minimum and can be calculated in advance.

The public's protection against undue exploitation by these powerful companies is based in theory on the wide though somewhat vaguely defined powers of the Government to take action in its interest, and in practice on semi-official rate-fixing machinery. Following the Railways Act of 1921 a committee appointed by the Minister of Transport drew up a standard schedule of railway rates to come into operation as from 1 January 1928. Alterations in this schedule, except those of a minor nature, were subject to the approval of a Railway Rates Tribunal. All rates were to be published. The railways were legally entitled to earn a standard revenue based on their pre-war earnings and subsequent capital expenditure, and the Railway Rates Tribunal, making an annual review of the accounts of each company, could alter the rates upwards if the standard revenue were not being

earned, or downwards to absorb 80 per cent. of any earnings in excess of the standard.

The introduction of a wartime unified control into the British Railway system did not, therefore, involve changes in organisation of a revolutionary nature. By the Railway Control Order of 1 September 1939, the Minister of Transport assumed control of the four main-line companies and the London Passenger Transport Board, and created a Railway Executive Committee as the medium of that control. Under the present financial arrangement the transition from commercial to State operation is complete. The railway companies receive a fixed annual net revenue of £43 million for the duration of the war and one year thereafter, any profit or loss on this sum being a Government responsibility.

In effect, therefore, the present condition of the Railway industry differs little, if at all, from nationalisation of the most uncompromising type. The profit incentive has been eliminated. In its place is the victory incentive, which is potentially at least as good a force making for efficiency as the pursuit of dividends in the pre-war system. When the single-purpose war economy becomes extinct, however, and the complex aims of peace are again motivating the Government, this simple formula of nationalisation will prove less efficient. In wartime there is in final analysis only one customer to be considered. All traffic travels at the Government's orders or with its approval. When that one customer is already exercising the sole direct control over railway policy, efficiency becomes largely a matter of technical and administrative organisation. In peace, particularly in the peace of a private enterprise economy, the trading community splits up again into its constituent elements and the railways' customers are again legion. The satisfaction of their manifold needs demands a combination of many varied policies.

One means of re-establishing the economic incentive to efficiency would be a return to the pre-war situation. The Minister of Transport would cease to exercise direct control over the railway companies except where the public was in danger of exploitation, and dividends would once again become the principal factor influencing railway policy.

There are various reasons why this would be an undesirable development, however. The first is that social efficiency is not

necessarily promoted by maximum commercial profit. There are social ends of more consequence than sectional economic gain. For example, the investment policy of an industry requiring much capital equipment is an important factor in the determination of the national wages bill and should not be dictated solely by the bare commercial indices of profit or loss. The price policy of a public utility will have far-reaching social consequences through its effect on the national standard of living. It should be determined not by actual cost nor even by what the traffic can bear, but by the social policy of the Government.

It is true, of course, that a great public company may be so well aware of its responsible position in the national economy that it considers the potential social effects of its policy at least as carefully as the strictly commercial effects. In practice, however, the railway companies have not always proved efficient guardians of the public interest. Railway investment policy, in particular, has shown itself curiously unresponsive to the economic needs of the community. As the following abstracts from the Railway Returns illustrate, in times of depression when new investment is most urgently needed the great railway companies have run with the industrial tide and slackened rather than accelerated their expenditure.

## RAILWAY EXPENDITURE

(1) *On New Lines*

1928 . . .	£1,888,555	1934 . . .	£290,293
1929 . . .	£1,193,551	1935 . . .	£310,353
1930 . . .	£826,950	1936 . . .	£437,037
1931 . . .	£680,116	1937 . . .	£588,136
1932 . . .	£788,849	1938 . . .	£836,812
1933 . . .	£344,947		

(2) *On Renewals of Stock*

(Complete renewals of Locomotives and Tenders)

(a) *In the Companies'*

Shops	
1929 . . .	£1,728,787
1931 . . .	£901,655
1935 . . .	£1,556,991
1937 . . .	£1,061,390
1938 . . .	£1,478,702

(b) *By Contractors*

1928 . . .	£948,110
1933 . . .	£3,173
1936 . . .	£1,543,106
1938 . . .	£493

Capital expenditure on new lines, which reached a figure of £1,888,555 in 1928, fell to less than a sixth of that value in 1934, after

which, in common with industrial activity in general, it began to rise again, and by 1938 had passed its 1930 level. Expenditure on renewals of rolling stock showed even more violent fluctuation and, as might have been expected, the peaks and valleys were much more marked in the case of work hired to outside contractors than in the case of work done in the companies' shops.

Clearly, the railway companies failed to appreciate the full extent of the responsibilities which their huge resources imposed on them. Whether or not they would show a greater appreciation during another such crisis, in view of the more universal awareness of the need for a public counter-offensive against slumps, is by no means certain. What is certain is that such an important weapon of social policy should not be left in the charge of concerns which are compelled to give first thought to their own current receipts.

### *Investment Policy*

A State which has already planned to throw sufficient controlled weight into the flow of industrial activity to iron out cyclical fluctuations altogether would seek to achieve maximum stability in the volume of railway investment. To this end it would attempt to plan investment in railway equipment for some decades in advance and to establish a fixed annual investment figure, the main function of which would be to act as a substantial centre of stability to the economy as a whole.

The authority charged with the calculation of this rate of investment would take into account three main factors. The first is the existing capital equipment of the Railway system. It is extremely probable that a serious shortage of equipment due to war conditions will make an abnormally high rate of investment necessary for the first few years after the war. The programme of stabilised investment would not, therefore, come into force until after a period of from three to five years, during which time the Railway system would be restored to a norm calculated on the basis of the probable volume of traffic prevailing after the post-war fluctuations had ceased.

The second factor of importance is the rate at which obsolete equipment should be replaced by the latest inventions: the rate, for example, at which the lines should be electrified, or specialised freight wagons introduced. Here, again, the calculator's decision would be

an arbitrary one based on current planning policy.

The third determining factor is the optimum share of the railways in the traffic available for inland carriage as a whole. Here the influence of some Authority which can view the problem of inland transport in its entirety is essential.

A comprehensive control of railway investment policy is clearly impossible without some form of nationalisation. Hence, the creation of another Public Corporation, such as has already proved its ability to deal with a complicated set of problems through the London Passenger Transport Board, is suggested. This solution is one which would involve the minimum of interference with existing arrangements. It would mean the replacement of the present railway shares by Government-guaranteed stock — a purely paper transaction in the first instance — and the formation of a central Board of Railway Directors appointed by the Minister of Transport from among the existing Boards and directly responsible to the Ministry. There is no reason why far-reaching changes in the organisation of the industry should have to be set afoot at once. The Railway Board would operate the railways according to commercial principles, subject to the decisions of the Ministry of Transport in the matter of its investment, price and labour policy. The London Passenger Transport Board would retain its present form but would be represented on the Railway Board.

## ROAD TRANSPORT

In many respects the condition of the Road Transport industry has compared very favourably with that of other industries. Its problems are those of rapid growth, and its losses in periods of depression are relatively slight in spite of the keenness of competition within the industry.

Competition is exceptionally free. Customers are numberless, and an initial capital expenditure of less than £200 will bring a new carrier of either passengers or merchandise into the field. Each carrier has to compete not only with the multitudinous concerns in his own industry but with long-established concerns offering other forms of transport. Haulage rates are forced down often below cost of production for the margin of inefficient firms dependent on the sweated labour of the owner-driver. Although cut-throat competition forms a constant



pressure on smaller operators, tending to drive them out of business, ease of entry into the industry is such that their vehicles, after sale to newcomers, continue to carry traffic while there is any working life left to them.

This infant industry, swollen by the flood of demobilised vehicles and drivers in the post-war period, broke the ancient monopoly of the railways. Until its advent the national transport problem was largely one of guiding the policy of a few giant monopolies in the public interest without straying too far from the fundamental principles of private enterprise. In this new situation a multitude of highly individualist concerns joined the few large railway companies in the business of providing the nation's transport. Not only were the problems of these new concerns entirely different from those of the railway companies; they differed widely from one another.

GOODS VEHICLES IN USE AND NEWLY LICENSED IN  
S.W. SCOTLAND, 1929-38

September	Goods Vehicles in Use	New Licences Issued during Each Year	September	Goods Vehicles in Use	New Licences Issued during Each Year
1929	12,655	1771	1934	14,752	2093
1930	13,278	1707	1935	15,460	2201
1931	13,546	1613	1936	16,201	2352
1932	13,680	1569	1937	16,769	2616
1933	14,443	1704	1938	17,703	2673

UNITED KINGDOM INDEX OF PRODUCTION AND INDEX OF EMPLOYMENT IN CON-  
STRUCTION AND REPAIR OF MOTOR VEHICLES, CYCLES AND AIRCRAFT,  
1924-38

Year	Index of Production (Commercial Vehicles excluding Taxis)	Index of Employment	Year	Index of Production (Commercial Vehicles excluding Taxis)	Index of Employment
1924	100	100.0	1932	205	103.5
1925	117	106.8	1933	218	114.6
1926	148	106.7	1934	285	127.9
1927	157	111.6	1935	307	136.7
1928	155	112.2	1936	359	155.1
1929	188	120.1	1937	394	176.4
1930	223	108.9	1938	351	188.7
1931	224	102.2			

It is clear that an industry with so little cohesion will be without any specific investment policy. Unlike the Railway industry, however, Road Transport does not exhibit significant fluctuations in investment in sympathy with variations in industrial activity as a whole. The above indices of production and licences reveal an almost uninterrupted growth throughout the period between the two wars.

It is not possible to derive from figures such as these any direct argument for State intervention to control investment in road transport. The case for such action depends rather on the belief that over-investment in this industry produces intense competition and anti-social labour conditions within the industry itself, while injuring railway transport which is obliged to observe other standards. If the unregulated expansion of motor transport produces a disequilibrium in the transport system as a whole, due to unequal conditions of competition, it is not economic. The wastage of the permanent assets of the railways, which follows as an inevitable result, is a social loss added to harm done in the road haulage industry.

Foremost among the conditions which give rise to unequal competition between road and rail transport are the various kinds of concealed subsidy enjoyed by traffic on the roads. Cost advantage is gained especially through community maintenance of the highways. The road haulage concern's contribution to the upkeep of its permanent way is limited to the various licensing charges which bear little if any relation to the wear and tear caused or the utilities reaped by this class of road-user, and to the fuel tax, which becomes, in effect, part of running cost. Unlike the railway companies which bear the full burden of an expensive track in boom or slump, the commercial motor operators share the long-period cost with private road-users paying a luxury rate of taxation and make no contribution to the special short-period costs of under-utilisation and over-utilisation of the roads.

The motor transport industry derives a further cost advantage from the limited and often ineffective nature of the restrictions on its exploitation of labour. Section 19 of the Road Act of 1930, which is the basis for the limitations on hours of work now in force, was passed to safeguard the interests of the general public endangered by a driver suffering from fatigue. It stipulates that a driver may not remain on duty for more than a continuous period of  $5\frac{1}{2}$  hours or for more than a total of 11 hours out of every 24. In fact, it is possible legally to

exceed this maximum and by adjustment of the driver's schedule to enable him to work for 13 hours in a day. Moreover, the reports of the licensing Authorities supply many indications of the difficulties experienced in enforcing even these limited regulations. In his report for 1937-8 on Southern Scotland the local licensing Authority writes : ". . . In spite of the fact that the courts now display a tendency to a greater severity in dealing with this class of contravention, an unduly large number of licence-holders have not only broken the conditions of their licences in regard to drivers' hours but have done so frequently over long periods". It is extremely difficult to secure sufficient evidence for a conviction where driver and employer are both interested in falsifying the evidence. Where driver and employer are one and the same, the regulations are practically ineffective. In any case this legal 11-hour day compares ill with the railway 8-hour day, and even where strictly enforceable gives the Road Transport industry a considerable advantage.

Finally, motor transport is enabled to take the cream of the traffic by varying its rates. The railway companies are tied to a rate schedule which allows very little elasticity in its observance and is fixed by an impartial Authority. It is a schedule which is traditionally based on the principle of charging what the traffic can bear, with the result that the rate for carriage of luxury goods is fixed well above actual cost while the carriage of heavy goods is priced very near to cost. Moreover, the railway companies as public carriers are legally obliged to take all the traffic offered unless physically unable to do so. The road haulage concerns can vary their price policy so as to repel the heavier type of goods which are relatively expensive to transport, and to attract those classes for which the railway charges are well in excess of the real cost of carriage.

Clearly, these artificial cost advantages do not tend to produce the optimum division of function between road and rail transport. On the contrary, to secure the most efficient division the State must be prepared to interfere with the organisation of the Transport industry in such a way that taxation is a function of the use which commercial motors make of the roads, that labour conditions are similar to those enjoyed on the railways and that rates of carriage by road are fixed by, or in consultation with, the Authority which fixes railway transport prices.

Schemes of taxation which aim at making commercial road transport meet the cost of its use of the roads have been drawn up already. The Salter Conference which considered the problem in 1932 drew up a scheme of taxation based on ton-mileage, petrol consumption and the weight of vehicle.

Difficulties arise which are inherent in the structure of the industry, however, when attempts are made to reduce the artificial cost advantage of the roads in relation to labour conditions and to fix rates of carriage by road. If enforcement of the hours regulations proved difficult when the limit was 11 hours per day, the difficulty would be multiplied by a stricter limitation. Indeed complete enforcement either of standardised conditions or of a fixed schedule of prices is virtually impossible in an industry which includes so many small and independent operators. In Southern Scotland in 1937-8 nearly 60 per cent. of the vehicles operating on an A licence and over 90 per cent. of those worked on a B licence were held by operators with under 10 vehicles each. Over 10 per cent. of the A licensed vehicles and 42 per cent. of the B licensed vehicles were the property of operators who had only 1 vehicle apiece. Control of these many units which falls in any way short of being complete is unsatisfactory.

On the other hand, complete control or nationalisation, involving as it does a change in the entire structure of the industry, might seriously handicap some producers with special transport needs. The variety and flexibility of the facilities provided by the road haulage system are shown partly by the classification used in the licensing system which was evolved in the decade immediately before the war. Under this system, A licences are held by carriers whose sole business it is to transport other people's goods; B licences, or limited carriers' licences, are issued to concerns which use their vehicles for carrying both their own and others' goods; C licences, or private carriers' licences, are for those concerns which carry their own goods only. Into these last two classes falls the greater part of the industry's units of production. It has been estimated that 75 per cent. of the goods vehicles on the roads are privately owned and that 80 per cent. of these are purely local tradesmen's vans.

Manifestly it is not possible to treat all sections of the industry in the same way. What is needed is to decide in which sphere control is most urgently required and then adjust the type of control to the

structure of the section concerned. Little further State intervention would seem necessary in the case of carriers operating under C licences, since they merely organise their own supply with their own delivery vans. It may be necessary to regulate the long-distance activities of this group, but short-distance distribution under C licence may safely be left free from all controls except the initial one of submission to proper tests for a licence.

At the other extreme, firms working under A licences in general undertake long hauls, and the temptation upon them to evade regulations is peculiarly strong. They overlap and conflict with the railway service. They employ heavy vans and wear the roads more than lighter traffic. They are not easily kept under supervision and the expense of an effective enforcement of regulations would be great. It is therefore suggested that this relatively small section of the industry should be wholly nationalised under a Road Transport Corporation similar to the Railway Corporation. A central executive appointed by the Minister of Transport would arrange for the purchase of the assets of A licence-holders according to the decisions of a Valuation Tribunal and would distribute Government stock in payment. In practice this would not constitute a major financial operation, for in 1938 less than 30,000 operators were using A licences over the country as a whole and the average fleet was less than four vehicles.

The Corporation would find its monopoly of great advantage in arranging full loads on all main journeys and in reducing delay in collection and delivery. The treatment proposed for holders of B licences would similarly help this process. It is suggested that the B licences granted to firms which carry both their own and other firms' goods should be withdrawn and replaced by C licences, an interval of time being allowed to enable these B licence-holders to reduce the number of their motors where necessary. Businesses which had been in the habit of maintaining a surplus of vehicles might be allowed to lend idle machines to the Corporation at an agreed rent. Further, if a firm possessing a fleet had established a system whereby the goods of a second firm were regularly picked up on return journeys, the system might be continued by the Corporation at an agreed special rate to the two firms in question.

The normal haulage rates and the special rates to be agreed with firms formerly working under B licences would be determined according

to principles established by a Rates Tribunal which would review all contracts made by the Corporation.

A further function of this Road Transport Corporation would be to enter into agreements with firms operating under C licences to distribute their goods beyond a radius of, say, 80 miles<sup>1</sup> (or a 3 hours' journey) from the motor depot of each firm in question. Arrangements might be made for the firm to supply the lorry with the load while the Corporation supplied and controlled the labour.

Effective co-ordination of the services of the three Corporations dealing with the Railways, Road Transport and London traffic might most suitably be achieved through three joint Boards. A healthy form of rivalry might still persist between the road and rail Authorities, and for the purpose of exact comparisons of efficiency it would be sound to keep the administrations separate. But the absence of the profit motive would favour a strong development of mutual co-ordination in the public interest. A perfect dovetailing of services might be expected. It would be the function of the Ministry of Transport to foster this development and to arbitrate in any matter which the parties concerned could not solve.

It is by no means certain that the State could or should convey goods by road at rates as low as those offered by private carriers. Cost reduction effected at the expense of the health of drivers, the lives and limbs of road-users, and the financial returns of other transport agencies working under stricter control, is not economy. The fundamental concern is the real standard of living, which includes conditions of work; and this would seem likely to be more fully safeguarded through State control of long-distance traffic than through the profit-seeking rivalries of thousands of small firms.

<sup>1</sup> This chapter was written before the announcement of the Government's scheme for controlling traffic involving journeys of more than 60 miles. If the lower limit is practicable, it is no doubt better than the suggested 80-mile limit.

## CHAPTER XVI

### *Cotton*<sup>1</sup>

AN investigation into the Cotton industry plunges the enquirer at once into complex problems of world economic diplomacy. Half the peacetime output of cotton goods from Lancashire is exported to overseas markets where it meets intense competition from Japan. Wherever Lancashire prevails, Japan must largely lose. If Japan fails to secure foreign markets, the industries of that nation are denied the means of importing raw materials. Since materials are not plentiful on Japanese soil, imports are indispensable, and there is a corresponding need for export to pay for them. To choke back exports is virtually a death sentence on numbers of the submerged section of the growing Japanese population. In fine, Lancashire's future success can only harden the determination of the Japanese people to secure by force whatever markets can be brought under military domination — this being their one hope of survival as an industrial nation with tolerable material standards.

What, then, can be done? Let it be said at once that there seems little prospect of an adequate, agreed solution except through policies of perfection. A safe remedy for the British Cotton industry — that is, safe from the point of view of peace — would seem to demand as a first step a constructive attack on Japan's urgent problems. Since these problems are scarcely soluble without foreign support, the point of departure is some form of organisation for international mutual aid.

The subject falls properly within the scope of world planning and will be treated more fully in Volume II. At this point certain findings may be mentioned which bear specifically on the Cotton industry.

In the first place Japan's entire export trade is dangerously unbalanced. Before the war, textiles and materials for textiles (including cotton tissues as the largest single item; raw silk; rayon, silk and woollen tissues; knit goods; and cotton yarn) accounted for between

<sup>1</sup> Much of this chapter has been based on the work of Miss Joanna Aytoun, who reinforced her study of published material by interviews with cotton manufacturers in South West Scotland. Acknowledgment is due to her and to many business men who were generous with their time and experience.

a third and a half of the total export of merchandise.<sup>1</sup> Other considerable items, shipping services, commercial insurance and tourist traffic, suffer the defect that they cannot easily be expanded through the efforts of the home Government.

Elsewhere it has been shown to what extent the export trade of South West Scotland is precarious because unbalanced. The position of Japan is much worse. Since textiles are the only large bargaining counters, these must be pressed everywhere unceasingly. If one market is closed, Japanese textile manufacturers must at all costs break into another. When this cannot be done peacefully, the alternatives are war or crushing poverty — unless, indeed, new counters can be made.

The solution of the problem is to widen the basis of Japanese export and give it more balance. To meet such a need, and at the same time to assist many other countries which lack materials, a scheme is put forward in Volume II for a "multiple trade agreement" — a single comprehensive pact under which nations would commit themselves to purchase a stated volume of imports from stated sources over a period of, say, two years. One nation's contract to import is another nation's guarantee of export. And the import guarantees would be so arranged — through the reconciling work of an international Planning Office — as to meet the special export needs of each nation.

In the case of Japan the aim of the multiple agreement would be, as mentioned, to provide outlets for Japanese goods other than textiles. Trade would thus be diverted from channels already heavily charged — thereby relieving the world's Textile industry — into others more suitable for enabling Japan to earn the title to import.

### *Fair International Competition*

A further object of international policy will be to create a just basis of competition between cotton-exporting States. The problem is again one of great intricacy and difficulty, but some progress towards a solution has been made in the past and international organisation already exists for unifying labour conditions and establishing a fair

<sup>1</sup> The proportion was 49 per cent. in 1934 and 39 per cent. in 1938. The percentages are based on figures given in the *Oriental Economist* of February 1940. Other sources used in this chapter are the *Census of Production, 1935*; *Cotton Industry Facts and Figures*, published in 1939 by the Joint Committee of Cotton Trade Organisations; the *Annual Reports* of the Spindles Board; *Scotland's Industrial Future, 1939*, a report of the Scottish Economic Committee; and *Skinner's Cotton Trade Directory*.



basis of labour cost. The principal factors to consider are wages and hours of work.

(a) *Wages*.—When the general economic standards of two nations differ widely, wage rates cannot be equalised ; nevertheless, it may be possible to generate a common movement yielding perhaps some trend towards equality.

In the chapter above on Coalmining, various methods were suggested for preventing the development of competitive wage-cutting in an unsheltered industry : the formation of an international workers' union in the industry, and the creation of an international arbitration court to which the union might appeal ; the establishment in each country of a minimum wage for arduous and dangerous work ; and the linking of unsheltered wages to an index of sheltered wages. Similar methods might be attempted in the Cotton industry, but here the difficulties would be greater owing to the exceptional diversity of trades and disparity of wages in cotton production. Possibly the best procedure would be to set up a special board of investigation under the auspices of the International Labour Organisation for enquiring into the particular rates paid to cotton operatives in all countries, and for recommending to Governments such changes as will bring Cotton wages everywhere into their due relation to the average wage for industrial employment in each country.

This plan would dovetail into a more general scheme outlined in Volume II for the international adjustment of wages.

(b) *Working Conditions*.—Another step in the creation of fair competition would be to convene a special Conference, under the International Labour Organisation, for preparing a series of Draft Conventions affecting working conditions in the Cotton industry. The Draft Conventions might suitably cover the following questions : hours of work ; overtime rates ; the age of entry ; night work ; and conditions of employment of women. A code of factory regulations might also be prepared, together with recommendations regarding the minimum scale of factory inspection to guarantee efficient supervision and control. Precedents which would yield guidance and detail are the pre-war Draft Conventions and Recommendations on Shipping, Agriculture, Bakeries and other single industries. Although in the case of Cotton the Draft Conventions could not provide for complete uniformity, conditions of work in the most backward countries might

be made the subject of special Articles which would at least ensure advance on former standards. The introduction of Articles for this purpose was in fact contemplated during the discussion of the Reduction of Hours of Work (Textiles) Convention, 1937 — not in force before the outbreak of war — but conditions in Asia were not favourable to the raising of labour standards at the time.

In what follows it will be assumed that international measures have been taken for establishing fair conditions in respect of wage costs, general standards of labour and the opening of markets. On such premises it would seem desirable that, as a first stage, the national branches of the world's Cotton industry should enter on a trial of strength, while striving by every available means to increase their efficiency.

In other words, a period of strenuous fair competition is envisaged after the war, lasting perhaps three years, during which each national branch of the industry would find its true relative position. This might be followed by a period of stabilisation in which quotas would be accorded to the different national industries based on the results of the period of fair competition.

### *Efficiency under World Competition*

In the attempt to attain full efficiency, each national industry would expect Government aid. It is the function of a Government to direct the resources of the whole community to the most constructive end. In a country with a fully concerted national plan the Government is obviously justified in adopting whatever industrial measures will serve the plan, even to the extent of favouring one industry more than another, so long as the national plan as a whole is conceived as a potential part of a comprehensive world plan.

It is in the light of such thoughts that the possible after-war development of the British Cotton industry will be examined. Efficiency will be the acknowledged high aim; and in the approach to this a partnership between industry and State will be assumed as axiomatic.

### *The Organisation of the British Trade*

Structural changes in the Cotton industry up to 1941 have included many extensive amalgamations. In the Spinning and Doubling

section the Fine Cotton Spinners and Doublers Association has united 49 firms with a paid-up capital of £8,350,000.<sup>1</sup> The Lancashire Cotton Corporation owns 44 spinning mills and has an issued capital of £3,043,894. Under the Combined Egyptian Mills, 19 firms engaged in fine cotton spinning have been amalgamated. Crosses and Winkworth Consolidated Mills own the capital of 13 firms and operate more than a million spindles.

The Amalgamated Cotton Mills Trust and Joshua Hoyle and Sons are two large amalgamations which combine both spinning and weaving.

Prominent in the sewing-cotton section are J. and P. Coats, with a paid-up share capital of £20,250,000, and the English Sewing Cotton Company which combines 19 firms with a total holding of £3 million.

In the Weaving section, apart from the few firms which have been gathered into spinning and general trusts, there appears to be no combination of any size.

The finishing section includes the Bleachers Association with 80 firms and share capital amounting to over £6 million, together with the almost equally large Calico Printers Association, the Bradford Dyers Association which has united 25 concerns engaged in the Bradford piece-dyeing trade, and the British Cotton and Wool Dyers Association combining 24 firms.

Rylands and Son, with a share capital of £3 million paid, is a complete vertical trust of "Cotton Spinners and Manufacturers, Bleachers, Dyers and Finishers" — apparently the only one of its kind.

The list seems imposing, but in reality implies no co-ordination in the industry as a whole. The weaving section is almost untouched by combination; and for this reason the largest spinning combines — except those which make sewing-cotton — are cut off from their final market. Their accounts reveal little advantage over smaller units.

In an industry which is highly specialised and has a long tradition of rigorous competition, there are certain special embarrassments facing any *vertical* union. For when a single firm absorbs branches from every layer of the industry — spinning, doubling, weaving, bleaching, dyeing and printing — and proceeds then to distribute its own output, it must gain such command over the market as to secure an unfailing

<sup>1</sup> The figures are derived from the 1940-41 edition of *Skinner's Cotton Trade Directory*.

stream of orders of the precise type needed to keep all branches active. If it cannot secure enough properly balanced sales, two unprofitable choices lie before it: either to keep some departments idle, or to continue working them in the hope of disposing of surplus semi-manufactured goods through its rivals. The difficulty of keeping all departments active is greatest when the final goods are most varied. The sewing-cotton trusts, it seems, have fully solved the problem of vertical combination, and this may be partly due to their producing a single article in regular demand.

In general, it does not seem that efficiency in the Cotton industry will be largely enhanced by the emergence of more vertical or other trusts. A further reason may be given. In the past, efficiency has been won through the progressive specialisation of every unit on some limited process. But this extreme division of labour is profitable only when each unit serves the entire industry. Full economy demands the employment of each specialised unit to capacity. Manifestly, this condition is more assured when the unit serves all parts of the industry than when it works for a single firm. As a broad conclusion it may be said that in any plan designed to rationalise the Cotton industry the optimum unit of control would appear to be the whole industry.

This finding may be modified, however, by the necessity of exercising control *from the market end*. Since the export market differs radically from the home market, two controls may be required. They would of course co-operate, but a high degree of autonomy in each field would probably yield the best results.

The need for applying control from the market end is most evident in the case of export. It would be absurd, for instance, to start with the planning and expanding of the output of cotton goods regardless of overseas demand. That way lies ruin. The true procedure is first to invade markets and expand sales. Thus the planning organisation, whatever its scope, must at least begin by accepting responsibility for sales. According to its success in this field, so will be its ability to assist and to plan the manufacturing section of the industry.

### *Export Planning and Control*

In the scheme below, the proposed Cotton Export Control is therefore separated from the Inland Cotton Control. It will be convenient to consider export first.

There is clearly need for some organisation, representing the entire export branch of the industry, which is empowered to make three types of approach to prospective buyers. It must be able to offer traditional Lancashire<sup>1</sup> products in any quantity for immediate delivery to any foreign customer. Further, it must have the means of producing fabrics traditionally favoured by the consuming country, even though they have not been made in Lancashire before. And it must possess an experimental station for inventing and producing totally new designs and styles, so that the interest of potential customers may be held.

Vigorous promotion of sales is impossible without these powers. Accordingly it is recommended that a Cotton Export Control be formed from the existing British Overseas Cottons Limited, with certain extended functions :

- (1) This Export Control would become the actual *buyer and seller* of all goods for which it could find a market.
- (2) It would have the *monopoly of export of piece goods commonly demanded abroad*.
- (3) It would command the whole-time services of whatever combination of units was necessary to produce this export.
- (4) The power to license firms to manufacture the monopolised products would be conferred on the Export Control.
- (5) The finished goods would be dispatched direct from these firms to warehouses abroad, where reserves would be held by the Control for immediate distribution.
- (6) The Export Control would maintain a world-wide network of agencies for securing orders, former Lancashire merchants being invited to take part.

In respect of cotton exports in less regular demand, it is suggested that the Cotton Export Control might follow the same procedure as above, without, however, having the monopoly of such export. The task would be to canvass for orders of every kind, and to pass these orders back to manufacturers ; but private producers and merchants would be encouraged to do the same. Moreover any firm, large or small, which was endeavouring to develop new lines of export would

<sup>1</sup> The immediate proposals relate mainly to the Lancashire trade. Scottish conditions are discussed later.

be granted all the assistance the Control could offer, being charged the customary agency fee on realised sales.

In order to be sure of fulfilling special contracts within given dates, the Cotton Export Control would need a priority claim over the services of selected mills and works, and this might be arranged subject to its indemnifying firms for any cost of "changing over". The Control would maintain enough stocks of finished goods to prevent frequent inconvenient demands on firms.

As part of the machinery of export control there would be needed a Research Department to undertake statistical studies of consumption in foreign markets ; analyses of costs in the different manufacturing centres ; research into marketing efficiency ; and experiment in design, style and colour. Such a Department has been already partly realised through the formation of a "Colour, Design and Style Centre" for the British industry.

Furthermore, the Export Control might with great advantage establish an Export Consultancy Service. Officers trained in this Service would give advice to individual firms on openings for export ; changes of fashion ; new designs and fabrics ; new materials, sources of supply or methods of treating materials ; recent improvements in machinery ; personnel management and welfare ; means of financing export ; and cost-accountancy methods for enhancing efficiency. In the case of firms licensed for whole-time export, one condition of the grant of a licence might be the appointment of an officer of the Consultancy Service on the firm's directorate.

Modern machinery for cotton manufacture, it is proposed, should be made available to the industry by means of a Government hire-purchase system. Firms wishing to buy machinery from the Government under such a scheme would be required to seek the advice of the Export Consultancy Service on the most suitable machines for their use, and the sale would be on special terms to any firm certified by the Service to be efficiently managed. Firms mainly serving the home market would apply for aid through a similar technical Consultancy Service under the Inland Cotton Control.

Finally, part of the function of the Cotton Export Control would be to organise exhibitions and develop widespread publicity for British cotton manufactures.

### *Inland Cotton Control*

Wartime organisation in the Cotton industry is both extensive and powerful, and includes a Cotton Control endowed with functions highly suited to the needs of peacetime rationalisation. Through this Control the Ministry of Supply exercises numerous far-reaching powers, among which are: the fixing of the prices of Egyptian, American and doubled yarn, and of controlled cloth and cotton waste; the collection of "returns, estimates or other information" relating to all businesses in the industry; the licensing of firms engaged in spinning, and the grant of licences for the industrial use of cotton waste; and the determination of priorities for contracts.

The system of price-fixing appears to have reached an advanced stage of development in the Spinning section. Prices of Egyptian type yarn are determined according to the "replacement cost" of the raw cotton used, *plus* an increment where relevant for carding and combing, *plus* a "margin" for spinning cost. The margins allowed for different types of yarn, and the cost allowed for carding and combing, are laid down in a series of tables. Separate regulations govern the fixing of prices for American type yarn.

In the scheme of national planning outlined in this chapter, the Cotton Control would play a prominent part by becoming the Inland Cotton Control. It is proposed that this Inland Control should at least initially absorb all the powers possessed by the wartime Control. It should retain, in particular, the right to fix margins, until thoroughly efficient voluntary methods of price-fixing had been evolved. Through the Cotton Board (established under the Cotton Industry Act of 1940) it might be possible to develop voluntary schemes of price adjustment in both spinning and weaving — say, on the lines of the pre-war method in Iron and Steel. But until such schemes had matured, the Inland Cotton Control would continue to govern prices.

A further power, that of licensing cotton firms for standard production for the home market, would be retained permanently by the Inland Cotton Control.

The essentially new function which, it is urged, should fall to this Control is the responsibility for *guaranteeing full employment to all cotton firms engaged on the standard output of the industry*. This task could be accomplished through a plan enabling it to buy or otherwise bring under its own direct control a certain number of mills and

factories to absorb the shock of any sudden change in demand.

Under the suggested scheme as so far outlined, three sections in the industry can be distinguished : a limited group of units working full time on behalf of the Export Control ; a further group engaged partly in export, either independently or through the Export Control, and partly in home production ; and a third group concerned only with the home market. It is proposed that a fourth be added : a group of units to be owned by the State and administered by the Inland Control. The main purpose of this section would be to provide a fringe round the industry to absorb all fluctuation in trade.

This State-owned fringe might be brought into being immediately after the war through the purchase by the State of enough plants to produce the civilian clothing allowed to demobilised troops. After the first six months, when the replacement boom was under way, the same works might change over to the production of ordinary peace requirements, thus preventing any over-expansion of private industry. Then, if there were some depression at the close of the replacement period, these Government works would surrender their normal trade to private industry and would be employed on public contracts, say, for camp equipment, sports clothes for schools, or other goods which could be communally distributed at nominal charges. Alternatively, part of the Government fringe might be converted into training plants under the general scheme of labour training and transfer (see pp. 236-7).

However successful the national plan, there will always be slight oscillations in the private demand for cotton goods, due either to changes in foreign trade or to fashion ; and it would be a function of the Government fringe to offset these variations at all times. In practice, a suitable method for adoption by the Inland Control would be, first, to license that number of private firms which, when consumption was at the lowest point reasonably to be expected, could supply the whole demand for standard goods ; secondly, to produce through the Government fringe any excess required in times of more active buying ; thirdly, to regulate the amount produced by the Government units according to the level of stocks in the country. In other words, Government output would be expanded whenever stocks fell seriously below a selected level, and as soon as this level was again reached some Government units would at once turn over to work on standing public contracts.



To complete this general system of planning, it would be necessary to license a certain number of firms for free-lance trade in special or high-quality fabrics. They would be given absolute liberty of action outside the range of standard goods covered by the main scheme. Further, some of them might be allowed a certain quota of standard goods if they could combine this efficiently with their special trade.

### *South West Scotland*

Some firms in the Cotton industry would retain such complete independence under the above scheme that they would scarcely be aware of its existence unless they wished to profit by the facilities offered for reaching foreign markets or for replacing machinery. The area of South West Scotland, in particular, would experience little change in the system of trade ; for most of the Scottish firms are specialists and would therefore not be licensed either for full-time operation under the Export Control, or for the production of standard goods for the home market.

The specialised character of the industry in this area is reflected in the following series of facts. According to the report of the Scottish Economic Committee entitled *Scotland's Industrial Future*, the number employed in the entire Cotton industry of Scotland in March 1938 was 12,927. Of these, more than half were engaged in the sewing-cotton branch of the industry. The chief centre of sewing-cotton production is Paisley, where J. and P. Coats have extensive works. This firm, with a capital of over £20 million, exports in peacetime more than 80 per cent. of its home-produced output of cotton thread.

Most of the other large firms connected with the Cotton industry in Paisley are bleachers, dyers and finishers.

The industrial map compiled by Mr. C. A. Oakley under the auspices of the Scottish Development Council shows that, in Glasgow, firms employing over 250 workers cover a wide range of output including curtains and nets, shirtings, muslins, marquisesettes and voiles. At Darvel, Newmilns, and Catrine, on the southern extreme of the area, similar large firms produce cotton sheets, pillow-cases, towels, window hollands, muslins, curtains, tapestry, lace, damask and embroidery.

Apart from the sewing-cotton branch of the industry there is little spinning in the Scottish area ; and weaving, which is more extensive, is specialised to a high degree.

Export has always played a large part in the trading activity of this area. In the past, India and other Eastern countries, together with parts of Europe, have provided strong markets ; but while these have lately declined, some expansion is reported in South Africa, Australia and New Zealand. The firm which is assured of most success in export, at least among weavers, is that which produces a wide range of high-quality materials and is either adaptable to changes in style or able to lead the trade owing to the acknowledged excellence of its fabrics.

### *The Needs of the Scottish Industry*

In any discussion of the special needs of the industry in South West Scotland it is necessary to begin by setting apart the sewing-cotton section as a special case. A firm which has been as triumphant as J. and P. Coats through every industrial crisis, and has built up an independent world-wide organisation for distributing its goods, needs little more than freedom to continue. A Government may co-operate by making agreements for lowering foreign tariffs and for easing international payment ; but these suggestions only emphasise the general principle that where a firm or trade is economically strong the service it most needs is release from impediment.

The weaving section, however, is differently placed. There are at least three respects in which the Government might help. A fear often expressed among weavers is that after the war there will be a serious shortage of skilled labour. As is well known, the Cotton industry has always been a family occupation, providing work for young people leaving school as well as for their parents. For this reason it has been easy to develop a tradition of skill, and until recently little risk has arisen of scarcity of trained labour. Since the last World War, however, the industry has become much less attractive to young people owing to its steady decline, and of late the tendency to desert it for the more lucrative war industries has much increased. Employers are concerned, therefore, lest recovery after the war be hindered by lack of qualified staff. They look to the Government to provide facilities for training labour immediately after the Armistice.

If the scheme outlined in these pages were adopted, part of the Government "fringe" might be recognised as a training ground for new entrants. This fringe would necessarily be established in areas

already devoted to cotton manufacture, and it might well accept responsibility for receiving new recruits, teaching them the rudiments of the trade, and passing them on to firms which were expanding under the impetus of the replacement boom.

A second feature of the post-war position will be the absence of modern machinery. Owing to the protracted depression in the Cotton industry there has been little replacement in recent years — a condition which will not be remedied during the war. In the Scottish weaving section, especially, many looms which have been kept in service purely by the renewal of parts for fifty years will need to be replaced by completely modern plant.

The proposed scheme for the sale of machinery by the Government on the hire-purchase system, and the grant of special terms to firms which are efficiently managed, would meet this need. Moreover, it would have important repercussions on the Engineering industry, in particular on the machine tools section which is liable to suffer immediately after the Armistice.

Finally, there will be the urgent task of recovering lost foreign markets and opening up new fields as soon as the wartime blockade is ended. Few firms in the West of Scotland, apart from the sewing-cotton section, will have the independent means of making their products known in all parts of the disorganised world, and they would obviously gain from the creation of some large marketing organisation. At present there are three methods in use among Scottish weavers for promoting sales abroad. Some firms maintain direct contact with retailers in importing countries — a method which assures the advantages of personal association, though it is slow and expensive to develop. It could not meet the emergency situation after the war. A second method is to sell to a merchant firm which deals exclusively with the one manufacturer's goods. Again, a single merchant, dependent in this way on the sales of one firm, will rarely have the resources needed for breaking rapidly into new fields in all parts of the world. Finally there is the method of selling through general merchants or merchant shippers. Although this procedure gives wider scope than the others, it deprives the exporter of direct contact with the buyer; and the merchant, as intermediary, has no special interest in promoting the sales of a particular firm.

The situation is wholly transformed when there is established a

Cotton Export Control, the paramount function of which is to gain all available information about every corner of the world's market and to relate its findings to the special productive abilities of every firm in the British Cotton industry. A producer who approaches such an organisation for help finds an ally whose *raison d'être* is to help him.

Assistance could be given in various ways, differing according to whether the manufacturing firm wished to preserve independent channels of export or preferred to place itself largely in the hands of the Export Control. In the first case it might, for a fee, seek the advice of the Consultancy Service of the Export Control and thus have placed at its disposal all the information possessed by the Control concerning overseas markets and methods of entry. Advice would further be given on new fashions and fabrics, and on the possibility of using the manufacturer's looms for producing new tissues with strong prospects of sale in foreign markets. Having received advice on these and allied questions, the firm might continue making its own dispositions for export.

If, however, it was too small to contemplate independent contact with foreign buyers, it might arrange to sell its output through the Export Control. In such a case, representatives of the Export Control would enter into full consultation with the firm, to reach agreement on the type of export which it could most efficiently produce and on the designs, styles, materials and dyes to be used. Thereafter the Export Control would undertake full publicity in foreign markets, and would transmit to the firm orders received for the chosen designs.

### *The Period of International Control and Stability*

The sequence of ideas underlying this study of the Cotton trade may be shortly recapitulated. As point of departure, it was assumed that no satisfactory solution of Lancashire's problem can be found which fails to observe the need for more balanced export from Japan. The programme should if possible include, therefore, international agreements for the exchange of goods, designed to open new channels of trade to that country. Such action will be made easy in proportion as consuming power is expanded in all parts of the world.

In so far as this introductory programme can be achieved, it will be safe, from the point of view of peace, to give full rein to competition in the industry and to fortify Lancashire for the purpose. Ideally it

would be desirable to prepare the way for such competition by establishing fair conditions through international labour conventions and arrangements for equalising wage rates.

In the period of competition each national branch of the industry would give first thought to its efficiency as expressed in organisation, technique, machinery, quality of output and marketing. Co-operation between industry and State for greater efficiency is assumed ; and the discussion just ended had for its purpose the suggestion of various ways in which the partners might co-operate.

There remains for mention a final period of stability during which, by international agreement, each national branch of the industry would be given a fairly constant share of the world market. The different shares, it is suggested, might be based on the results of the competitive period.

No doubt this would be the most difficult of all parts of the programme to apply. The method of quotas, when controlled only by exporting countries, calls for the formation in each country of some organisation strong enough to distribute quotas among the hundreds of firms engaged in export. Moreover, the system would collapse if any large exporting countries were to resist it. The alternative proposal for dividing the market and allotting areas to each national industry might be more workable among the producers ; but importing countries certainly would not concur in it.

In view of the exceptional difficulties it seems important to emphasise once more the need for establishing some supreme international authority, a World Planning Organisation, as reconciler of interests. Such a body would have the advantage of being able to approach consumer countries and invite them to play their crucial part in controlling the plan. Once they had been persuaded to assist, a quota system could be built up from both ends. Exporting countries, in the first place, would be asked to agree on the export quotas to be allotted to them. Then, if agreement were reached, importing countries, that is, virtually all countries in the world, would be asked to import only certain quotas from the various manufacturing centres. These import quotas would be fixed by the Planning Organisation in such a way that, while causing little change in the buying practices of consumer countries, they would in the aggregate yield to each exporting country a quota conforming with the agreement.

## CHAPTER XVII

### *Building*

PERSONAL feelings are the inevitable starting-point for suggestions concerning physical planning, and the present writer's view is that the first aim of town planning should be to preserve the country. For many years British industrial towns, in encroaching on the country, have steadily destroyed the amenities they have hoped to exploit. The next necessary step is counter-invasion. Concretely, the National Trust, as the body most intimately concerned with safeguarding British scenery, should be invited not only to schedule for protection those areas which it has long coveted for its own, but also to mark down every coastal and lakeside area which become defaced, with a view to its progressive clearance. Restoration should begin with the most easily redeemed spaces. It may take a century or more to repair past devastation, but the first essential is to ensure that the trend is right.

When the National Trust has done its work, town planners will be instructed to make the best use of the land that remains ; and the best will still be in accordance with the principle of counter-invasion of towns by the country. In Scotland, for various reasons partly economic and partly fortuitous, many towns have remained fairly compact, with the result that their citizens can escape quickly into open land. To achieve this elsewhere it will be necessary to check the spread of straggling fringes round each large populated area and, if possible, carve out the centre to leave a horse-shoe shape. Thus a town with continuous dwellings for a three-mile radius and "development" extending a further mile might be given a rigid four-mile expansion limit. A green area of one-mile radius might then be made in the centre and joined to the open country by a corridor a mile wide. The green coastline of the town could be extended on the fjord system, the tallest and most beautiful dwellings being built round the shores of the fjords. By such means continuous field would be made accessible to all citizens at but a slight distance from their homes.

The horse-shoe method is only one of several ways of laying a

town open to the country, but in favour of this method it may be noted that a town built round a bay or wide harbour avoids altogether the atmosphere of suffocating gloom that often hangs over inland towns. A broad river with green spaces lining its banks can give much the same effect. Towns with none of these natural advantages may resort to parks, lakes and woods.

Whether the point of departure be the defence of the countryside as is here suggested, or whether it be concern for the architecture of the towns themselves, the same conclusion is likely to be reached, namely, that any imaginative scheme of town planning will keep the Building industry active for fifty years. On the assumption that at some time not far remote British leaders will find themselves shocked by the gashes that have been scored across this country, and will decide to adopt comprehensive, drastic measures, the Building industry need not fear again. Its future will be one of rapid expansion and of sustained activity based on housing programmes designed to yield not merely a given cubic space of house-room per head but a panorama everywhere bearing comparison with that of Westminster, Oxford, Cambridge, and other places where the architect has been given similar scope.

The fortunes of the Building industry have long been under influence by political action, through subsidies, rent control, the rating system and measures affecting the general level of interest. This political influence will unavoidably continue, and the prospect for Building will depend much less on its own policies than on the financial programmes of municipalities and the State. Nevertheless, so long as the detailed control of the industry is in the hands of private entrepreneurs they may have some power of self-help, and it will be useful to consider how far this extends.

### *The Limits of Self-Help*

Revolutionary progress in building houses demands, at least as one permissive condition, a revolution in materials. The justification for this belief calls for some explanation. Mass production of houses should be possible on the same principle as the mass production of ships. Pre-construction of parts is the first need. These parts must then be brought together at a given place in an exact sequence. They

must be assembled swiftly and, where possible, by machinery.

After the last war a certain shipbuilding firm on the Clyde, Messrs. Beardmores, conceived the idea that shipbuilding and house-building had much in common, and began to build steel houses. The idea was sound, but the demand for steel houses did not develop on a scale sufficient to permit their economic production. Steel cannot, of course, be used independently of other materials; and research is now concentrated on the discovery of some single substance from which wall units can be made.<sup>1</sup>

Possibly the ideal material has not yet been found. In order to satisfy all the requirements of mass production, as well as forming a suitable substance for the shell of a house, the material must be capable of being cast into moulds and of enfolding pipes, tubes and wires within the cast; it must not crumble or suffer erosion through contact with metals, minerals, moisture or gases; it must not shrink or swell through the action of moisture; it must be dense and resist compression; when set, it must withstand high and low temperatures; if possible it should permit construction in all weathers; after erection it must be impervious on the outside, while on the inside presenting a surface to which paint and wallpaper will adhere; condensation of moisture is to be avoided; it must be hard, yet not so hard as to resist nails and screws; it must allow of patching, extension and the making of joints; it must be a non-conductor of heat and of sound; if possible it should be antiseptic and vermin-proof; it must be non-inflammable; it must, especially, have a good appearance and rival stone, slate and marble in producing buildings of distinction.

Not all these qualities are indispensable for roofs, chimneys and floors; and as regards walls, two or more substances combined may yield the desired results, just as bricks, mortar and plaster jointly answer the need. But the discovery of one composition capable of meeting all the above requirements would lead to immense economy, especially if it were itself inexpensive.

Experiments have already been made with many materials, including, in addition to ferro-concrete, cast stone and asbestos cement

<sup>1</sup> Pre-cast concrete slabs (*béton vibré*) were used at Hilversum and at Drancy (France) about ten years ago for "standard construction" on the principles just described (see *Chantiers*, March 1933; French architectural review). In Great Britain, Messrs. G. and J. Weir were pioneers in the construction of steel houses. "The essence and novelty of the scheme", they say, "consist in standardised design carried out by mass production methods."



which are in common use, a variety of plastics or compositions such as lignocrete, maycrete and nashcrete, tentest for the interior of walls, and plate glass for all purposes. Research continues. If progress in the actual employment of new material has been slow, one reason is that experiment in construction is both expensive and hazardous. No ordinary buyer or builder dare substitute untried material which may crumble in ten years for material which is already guaranteed by generations of performance. If the structure fails, the buyer loses his home and savings ; the builder loses his reputation. Conservatism in building is in fact rooted in very reasonable caution.

A further obstacle to the use of new material is that it calls for a new type of labour. When a composition is found which will replace not only bricks and mortar, but also plaster, slate, tiling and timber, three-fourths of the Building trades will become fused into one. Demarcation lines will become meaningless. And a highly embarrassing situation may arise for any firm which attempts to recruit labour for handling the new material. It will naturally hesitate to face this adventure if the capital cost of transition is great.

Certain conclusions may be drawn. One is that it would be unwise to expect much development through the initiative of the Building industry itself. If spectacular advances can be achieved only through a change in material it is not reasonable to throw the onus of experiment on individual firms. Corporate experiment by the industry as a whole might more justly be expected. But the community's need of economy in building is so pressing that it cannot afford to leave research to a Building industry which is less conscious of the need. Hence the further conclusion follows that the State should assume responsibility.

A State Department would be the ideal body both to make investigations and to undertake trial construction. Experimental buildings might be erected by such a Department with the aid of a category of labour to be described as building engineers. Men who had already been trained in both building and engineering would form the nucleus, and others recruited from each industry would be given the training they lacked.

### *Government Responsibility*

In an economic system in which it is intended that private enter-

prise should predominate there would be every advantage in leaving the greater part of the Building industry in private hands. Nevertheless, the Government may intervene to form a spear-head. Just as, in Shipbuilding, Government contracts for naval ships provide a fruitful source of costly experiment and innovation, so might Government contracts for houses yield a foundation for technical progress in house construction. It is suggested, however, that the Government's responsibility in housing should extend much further than in shipbuilding.

To this end there might be evolved from existing Ministries a National Department of Architecture and Construction comprising two principal Divisions: a Building Contracts Division to undertake, issue and otherwise promote large contracts calling for building methods already tried and proved; and a Research Division to evolve new material and methods.

#### *Building Contracts Division*

The Building Contracts Division would include a Section of Architects acknowledging as their main goal variety and grace of outward line developed from standard units. This task would be simplest in the case of many-storeyed buildings. The vaster the edifice the more obvious the invitation to make it resemble a palace. And with every increase in size there is enhanced opportunity of varying the style through different combinations of stereotyped units. The scope for the architect grows as the structure soars and spreads; and the fact that it is to house people with £3 a week need make no difference to the perfecting of its shape.

Designs would be prepared with specific types of British scenery and setting in mind; and when the plans were complete the Building Contracts Division would offer its services to municipalities for the reconstruction of selected areas. It might plan its activities on the pattern of the London County Council's Works Department, with the difference that it would have branches in all parts of the country to assist those boroughs and counties which were least able to undertake large-scale operations themselves. Since its main mission would be to secure the widest possible use of standard units, it would not only develop the practice itself but also employ indirect methods such as the extensive offer of Government contracts to private builders, the

distribution of plans and specifications to Local Authorities and the advertising of standard-unit supplies in technical journals. The intention would be both to gain the economies of large-scale contracts and to encourage the mass production of building materials and units. The Division would therefore use all legitimate means for enlarging the demand for specified units, and for expanding the firms which produce them.

### *Research Division*

The work of the Research Division would ultimately have the same object as that of the Building Contracts Division ; but it would begin one stage further back. The Building Contracts Division would use long-recognised material. The Research Division would be concerned to discover new material. It would undertake no building work, other than experimental, until it had found the perfect material, or at least some composition which could form the basis of a revolution in building method.

Once the proper material had been found the next stage would be the architectural one of evolving standard sections of foundations, wall sections, whole roofs, floors, hearths, chimney-stacks and chimneys. Works would be established for producing these sections. The machinery for erecting them would be invented and manufactured.

The Research Division would then arm itself with a wide range of plans for different types of dwellings to be assembled from its standard units. Each plan would include, in addition to drawings, a list of the structural parts and assembly machines, all of which would be numbered in order of erection or use. The list would indicate firms from which the parts might be bought.

The number of man-hours required for erection would be stated on each plan. In order to arrive at a sound figure the Research Department would employ a highly skilled team of building operatives on an experimental estate, and this team would set the "bogey" for each plan, together with a figure representing a fair time rate for less experienced workers. The optimum size and constitution of the building team would likewise be stated.

Plans of this kind would make possible a new method of wage payment in the industry. Just as a farmer sometimes contracts with a group of workers to pay them a fixed sum for gathering the year's

harvest *regardless of the time involved*, so a building contractor might arrange to pay a team of operatives the sum corresponding to the man-hours stipulated in the plan. If they accomplished the work in less hours they would gain financially in proportion to their relative speed of work. The number of man-hours stated in the plans would be established by agreement with the national organisations of Building employers and workers, and would be submitted for endorsement by the Price-Fixing Board.

### *Combination of Public and Private Control*

In the picture given, the control of the Building industry is thus divided between public and private bodies. Local Authorities retain their role as the parties responsible for local physical planning. The Government enters to encourage the building of the most economic and architecturally sound dwellings. Private enterprise continues, and still controls the bulk of the industry. It is suggested that the proportions which private and public enterprise bear to one another should be determined empirically. Municipal direct-labour schemes already compete with private building, and the rivalry seems health-giving. State intervention in actual construction might bring further gain. At least it would enable the State to fulfil its responsibility in the matter of experimenting in cost reduction.

The progressive diminution of costs calls, however, for financial action which is not less significant than technical advance, as will appear from a brief statement of the economic factors on which the prosperity of the Building industry depends.

### ECONOMIC CONDITIONS DETERMINING THE TOTAL VOLUME OF CONSTRUCTION

The volume of house construction at any given time is determined, if it be assumed that construction will stop when dwellings become empty, by the demand of householders in relation to the total cost laid on them as tenants. Demand being given, the central factor to consider is the "gross charge" which the tenant must pay. This "gross charge" is the full amount of the expense to be met by the tenant in respect of his occupation of a particular house. It comprises eight elements of varying importance: (1) rates, together with common

house rent which may be split into (2) the rate of interest on (3) the initial cost of construction, (4) depreciation, (5) repair, (6) insurance, (7) ground rent and (8) scarcity rent if there is no State control of rents in a time of housing shortage. Strictly, the last-mentioned does not check construction, but itself disappears as construction expands. The remaining seven factors directly affect the volume of building, and all are subject to influence by the State.

Through research into materials, on the lines just indicated, the State may substantially reduce four of the items mentioned: initial cost of construction, depreciation, repair and insurance. The discovery of *non-inflammable* material for roofs, floors, doors and window-frames would reduce insurance to almost nil. The discovery of *durable* material will reduce depreciation and repair. The discovery of *cheap* material will bring down the initial cost of the structure.

### *The Rate of Interest*

Probably the most important single factor for the Government's consideration is the rate of interest. The purchase of a house is an alternative to an investment in stocks and shares. Hence if the rate of interest on share capital falls, investors tend to put more money into Building; and construction expands until rents fall and yield a net return equal to the rate of interest. Moreover, when people buy their own homes on mortgage, a high proportion of the annual payment is interest on the money borrowed. If the rate is reduced the annual cost of buying a house declines and more people invest.

For these reasons the volume of private house-building is very sensitive to the rise and fall in the rate of interest. The Government is therefore provided with a most powerful instrument for affecting the fortunes of the Building industry. By lowering interest rates it reduces both the "gross charge" paid by the tenant of a new dwelling and the annual payment to be met by anyone who buys a house through hire purchase.

The Government can reduce interest cost either by providing cheap money specifically for building purposes — as when it enables municipalities to borrow at low rates through the Local Loans Fund operated by the Public Works Loan Board — or by policies designed to reduce the general level of interest throughout the country (see pp. 282-3). Both methods are recommended in these pages.

*Rates*

Local rates are a part of the price, or "gross charge", for house-room, just as much as a tax on tea becomes part of the price of tea. The higher the rates, the less will be the effective demand for houses. Indeed, if householders in general regard a certain proportion of the family income as their due outlay for house-room, any rise in the "gross charge" caused by a rise in local rates will lead to an exactly proportionate fall in the effective demand for houses.

Thus, the diversion of tax burdens from the National Budget to Local Authorities is equivalent to a tax on house-room and is a blow at the Building industry. Conversely, any subsidy to Local Authorities for the relief of rates implies a reduction of the handicap to Building. It follows that any realistic study of the industry's prospects calls for an examination of the more general financial issue: national taxation versus local rates.

After the war the problem will arise in an acute form. There are two main dangers. One is that the cost of war damage to public utilities in industrial towns and ports will be thrown partly on the Local Authorities, and will lead to an exceptional rise in rates. The other is that the burden will be shared unequally between depopulated, devastated towns and those which have gained in numbers during the war. The very areas which it is most urgent to rebuild may have the heaviest burdens thrown on them, so that they can neither attract new population nor provide cheap housing.

The sound solution, for which preparations are doubtless being made, will be to review the whole problem of local rates immediately after the war. There exists already, in the Block Grant, the necessary medium for preventing both an excessive rise in rates and inequalities between districts. The Block Grant to Local Authorities can be increased in size, and it can be newly weighted so that the largest subsidies go to those boroughs on which the cost of war damage mainly falls.

The War Damage Act, 1941, will assist the spreading of expense, and the purpose of any post-war enquiry into local rates will be to supplement this Act.

*Ground Rent*

The term "ground rent" is here used to include not only the rent

actually paid to the land-owner of leasehold land, but also the increment of rent which any property-owner can exact for special advantage of position.

There are various ways in which the State can diminish this factor. One is by nationalising the land. Thereafter, whenever the State opens a new road or otherwise improves the amenities of a district, the consequent rise in ground rent accrues to itself. Any actual increase in its receipts could be used for the reduction of rates or the subsidy of housing.

Another way is to improve transport facilities. This not only diminishes the relative advantage of central areas, but substantially reduces a further element which might justly be included in the "gross charge" for house-room, namely, the cost of transport to a place of work or shopping centre. Great hardship is often caused to families compulsorily transferred to new housing estates remote from their place of work, inasmuch as the expense of travel is added to a relatively high rent. In any event, a householder who is contemplating a move to a new district always takes into account any additional transport cost as though it were an addition to rent.

This leads to the further suggestion that the planning of new estates so that each contains a well-balanced cross-section of industry capable of employing all types of labour would reduce much semi-concealed poverty. Needless to add, it would also make the estate attractive and stimulate the demand for more new houses.

Although such proposals are mentioned in relation to the reduction of ground rent, they all form a necessary part of the general programme of town and country planning. Compact, industrially-balanced populated zones, with good transport facilities, established with the aid of State-ownership of the land,<sup>1</sup> are among the principal objects of any scheme of physical reconstruction. If, as by-product, they yield some diminution in the "gross charge" to householders, that is a considerable further gain.

### *Subsidies*

At the end of the war, when wages and other costs will have risen,

<sup>1</sup> The piecemeal purchase of land — i.e. the purchase of those parts which are to be developed by the State — coupled with the comprehensive "development rights scheme" advocated by the Uthwatt Committee on Compensation and Betterment, may be simpler and less costly than immediate total nationalisation of the land.

the cost of building may leap to great heights in view of the relative scarcity of both materials and skilled labour. If this happens, new construction will be unprofitable to private enterprise unless rents on new houses are correspondingly raised. If householders cannot pay the high rents, the private demand for new building will fail.

In such conditions a subsidy for the reduction of building costs is an inescapable social necessity. There is a risk, however, amounting almost to certainty unless special action is taken, that State aid will itself increase the tendency for costs to rise. The subsidy should therefore be made conditional upon certain safeguards. These would include: (1) the complete control of the State over the prices of building materials; (2) the rationing of materials by district in accordance with the skilled labour available in each district; (3) the rationing of labour as between subsidised housing and other types of construction; (4) a Regulation prohibiting the recruitment of labour outside the district, except through the Employment Exchanges which would operate under rules; (5) an understanding that each Local Authority would adjust its housing programme according to the local labour supply as determined by the "ration" for subsidised dwellings *plus* new entrants trained locally. The last provision would ensure the active co-operation of the Local Authority in the Ministry of Labour's schemes for training labour.

The main task of the National Planning Authority in physical reconstruction will be to conclude a National Building Pact with all Trade Unions connected with construction, with a view to giving guarantees both to the staff of the industry and to the State. Such a pact will be rendered exceptionally difficult by the past record of Party Government in its dealings with the trade. Vagaries in British policy as applied, for instance, to Scotland are shown by the following short narrative.<sup>1</sup>

In 1919 the Housing and Town Planning, etc. (Scotland) Act was passed, whereby the onus of meeting the shortage of houses caused by the slump in building before and during the war was placed squarely on the shoulders of the Scottish Local Authorities, who were guaranteed against any loss in excess of the proceeds of a local rate of four-fifths

<sup>1</sup> We are indebted to Mr. P. C. McHardy for this summary, and to the Department of Health for Scotland for supplementary details.



of a penny in the £1. The Housing (Additional Powers) Act, 1919, further authorised the payment of a subsidy of £230-£260 to private enterprise for each working-class house built independently of the Local Authority. House-building was greatly stimulated by this scheme, but the subsidy was withdrawn in 1921, in the depth of depression. In 1923 the Chamberlain scheme provided for a grant to Local Authorities of £6 per house per annum for twenty years. In 1929 the grant was reduced to £4, and in 1934 it ceased. The Wheatley scheme of 1924, which applied only to houses for letting, offered a grant of £9 per house per annum for forty years.<sup>1</sup> This was reduced to £3 in 1934, and was finally abandoned in 1935. In justice it may be said that this was a period of trial and error, and that the lessons learned were reflected in the Slum-clearance Act of 1930 and in the Act of 1935 which was designed primarily to deal with overcrowding. The subsidies payable under the Acts of 1930 and 1935 were assimilated under that of 1938. Probably this more recent legislation will form the main basis of Government action in the coming period of rebuilding.

Change in the form and amount of housing subsidies is not necessarily in itself undesirable. The essential is that all changes should be in accordance with a long-term, concerted national plan, and that the subsidies should accompany a comprehensive pact with the building trades. A logical procedure would seem to be for the Government to decide, first, the magnitude of the intended housing programme for the ten years following the war — a programme rising to a plateau at the end of about four years. From this decision an estimate could be made of the minimum labour force required to accomplish the programme, the proportions for the different trades being duly noted. The Government would then offer the Trade Unions a ten-year guarantee of employment at the levels indicated, on the understanding that the Unions would co-operate in the training of labour and in transfers from one building trade to another if methods of construction changed. A further stipulation would be concurrence in the review of building wages by the Price-Fixing Board.

Thereafter the Government would regard subsidies as the main means of fulfilling its own share of the bargain. Basic subsidies for slum clearance might be established, similar to those evolved in the latter part of the peace interval, supported by variable subsidies

<sup>1</sup> The grant was £9 for urban areas and as much as £12:10s. for rural areas.

designed to regulate the total volume of working-class housing. It would be necessary to announce changes at least twelve months in advance.

Other methods of maintaining the volume of building at the guaranteed level would include the adjustment of the plans of Local Authorities to absorb any surplus of labour arising in their district.

By preserving a low rate of interest the Government could, as noted, powerfully stimulate the private demand for new construction. In general, the Government's aim would be to produce a continuous and universal tendency towards expanding demand and scarcity of labour, and to prevent this from leading to increased costs by the rationing of labour. The rationing would be effected through the Ministry of Labour in consultation with Trade Unions and Employers' Organisations, and any attempt to evade the control through the offer of special inducements to unauthorised recruits would be heavily penalised.

### *The Outline of a Programme*

The chief measures recommended for adoption before and after the Armistice may be drawn together here in conclusion.

#### BEFORE THE ARMISTICE

(1) The scheduling of all land to be safeguarded from further building.

(2) Declaration of the principles of the national master plan.

(3) Announcement of the Government's part in the physical plan : e.g. the construction of trunk roads, new bridges, electrification, reclamation, drainage and afforestation ; the creation of State Industries ; State purchase of mines approaching exhaustion, and acceptance of responsibility for the introduction of other industries into the mining area.

(4) The announcement of the intended system of housing subsidies : the revival of slum-clearance grants as a permanent background ; and the offer of a large subsidy for houses completed in accordance with Local Authorities' plans within two years of the Armistice.

(5) A statement of all further conditions for the receipt of grant.

(6) Preparation of Local Authorities' plans, and their endorsement

by the central Authority, so that work may be started as from the first day of peace.

(7) The preparation of labour training schemes jointly by the Ministry of Labour and each responsible Local Authority with the co-operation of Building Trades organisations.

(8) The signing of a National Building Pact between the Government and Building Trades Unions, guaranteeing, on the part of the Government, an assured volume of constructional work for not less than ten years, and on the part of the Union, the necessary degree of labour dilution and transfer, the avoidance of restrictions on output, and the acceptance of review of Building trades' wages by the Price-Fixing Board as final arbiter.

(9) The preparation, by the Ministry of Supply, of plans for a swift increase in the production and import of building materials.

#### AFTER THE ARMISTICE

(10) The chartering of special fleets for the import of timber and other essential materials.

(11) The launching of all Local Authorities' plans, supported by Government subsidy.

(12) State provision of capital, especially to small municipalities, at low rates of interest.

(13) State provision of capital, to supplement that supplied by Building Societies, to approved building firms engaged in furthering the Local Authorities' plans.

(14) State purchase of all land scheduled for development by public enterprise.

(15) The continuance of the wartime system of rationing of building labour, special preference being given for the erection of subsidised houses.

(16) The organisation of training courses in the Services, pending demobilisation.

(17) Revision of Block Grants to Local Authorities to distribute equitably the burden of reconstruction, and to keep down rates.

#### PERMANENT MEASURES FOR REDUCING COSTS

(18) Complete control by the Ministry of Supply, and later by the Board of Trade, of the prices of building materials.

(19) Establishment of Government works for the production of building materials — to supplement private supplies and to produce newly developed materials by mass methods.

(20) The formation, from other Ministries, of a Department of Architecture and Construction, comprising two Divisions : a Research Division to discover new materials, to experiment in building with them, and to develop plans for the mass production of large structures or housing estates with standard units ; and a Building Contracts Division to undertake construction on the basis of proved method and to extend as widely as possible the practice of building with standard units.

(21) The maintenance of a low rate of interest.

## CHAPTER XVIII

### *Agriculture*<sup>1</sup>

THE fortunes of Agriculture are linked with the efficiency of the entire productive system, and no setting is too large for the adequate examination of this industry. There are undoubtedly problems peculiar to Agriculture itself, such as that of *parcellement* on the Continent, or over-production due, say, to high seasonal yields of coffee in Brazil or of cocoa beans in West Africa ; but the main economic problems of this industry are the same as those which disturb the economic system as a whole : the failure of consumption ; the divergence of agricultural and industrial prices ; the shrinkage of markets, world-wide over-supply and substantial changes in the terms of trade.

Furthermore, it is impracticable to examine the problems of Agriculture in Great Britain apart from those of food production in all other farming lands. The destinies of British producers are bound up with such large happenings as the transition from agriculture to industry in the U.S.S.R., the increase of population in India, China and other agricultural countries, advances in farming technique on the American continent, co-operative developments in Denmark and rainfall in Australasia. Most important of all factors is the tendency of Agriculture in every part of the world to burst the bounds of its markets, through lack of planned expansion and planned consumption. Thus, the only satisfactory opening to the discussion of post-war farming in Great Britain is to attempt some forejudgment of probable conditions arising in Agriculture in the world as a whole.

The first few months of peace will witness conditions of scarcity bordering upon famine in the devastated zones. Even mainly agricultural countries like Poland will be in want, owing to the destruction of breeding stock and the general denuding of the fields and lack of seed, fertilisers and agricultural machinery. The same may be true of western Russia, large tracts of China and other lands which the war may yet blast.

<sup>1</sup> This outline is based on a memorandum by Mr. M. Compton. It owes much to Mr. Colin Clark's work on *The Conditions of Economic Progress*, from which certain central ideas are drawn.

In this first stage each stricken nation will demand, and will no doubt receive, assistance towards the recapitalisation of its farming industry. The plight of the nation, harsh though it be, may well contain the seeds of better conditions for a suffering people : indeed, the grant of assistance to farmers will provide a unique opportunity for demanding the adoption of modern methods and, above all, of regrouping agricultural land to produce the most economic units of cultivation. This task of evolving and promoting up-to-date farming technique is one for an expert Planning Authority in each nation, since conditions of production vary from land to land. Such a Planning Authority should be brought into being long before there is prospect of an Armistice, so that measures based on concerted agricultural policy may be prepared well in advance. In Central Europe, China, India and other lands where the soil has been parcelled out generation by generation till it can no longer be worked with anything but a hand implement, there is special opportunity for starting a new era of cultivation on the basis of reorganised farmsteads.

It will be easy to miss the opportunity unless plans are fully pre-arranged. Immediately after the Armistice there will be a general scramble to press men back on the land, so that they may begin cropping at once by any methods they know. Inevitably they will return to the old ways. In six months the entire farming system may have become set in a pre-war mould, and yet another revolution may be needed to change it.

There are two fairly simple and comprehensive means of preventing a permanent reversion to primitive ways. One is to nationalise the land. This will make possible at any future time the gradual re-fixing of farm boundaries to form the best units of cultivation. The other is to establish national food-marketing Boards which will purchase, on behalf of the Planning Authority, all food for sale to the people. In buying, the Purchasing Board can always stipulate what quality it will buy. Since the quality depends on methods of production, the Purchasing Board has thus at its disposal the means of progressively imposing modern methods.

It is strongly recommended, therefore, that the procedure in every country in respect of the period of "succour" following the war should be :

- (1) The formation of a technical agricultural committee forthwith on behalf of each nation to determine the principles of cultivation most suited to its land and people.
- (2) The nationalisation of the land.
- (3) The formation of Government-controlled Purchasing Boards for buying and distributing all farm produce.
- (4) The provision, by the United States, Great Britain and other creditor countries, of international loans at low rates of interest for the restoration of devastated areas.
- (5) The use of the loans not only for providing stock, fertilisers, machinery and materials, but also for encouraging the adoption of radically new methods of farming.

### *Two Years Later*

*Prima facie* the rehabilitation of all war-ravaged agricultural countries on a footing of increased efficiency would seem likely to raise serious problems of international over-supply. When it is recalled that about 70 per cent. of the world's working population is engaged in agriculture, it might appear that great improvements in the technique of cultivation would bring disaster on many unwanted producers.

Consideration of certain post-war trends confirms this expectation. During the first twelve months, the dearth in some parts will provide full inducement to the great food-exporting countries of North and South America and Australasia to expand their output to at least pre-war level. Further, the United Kingdom, the Scandinavian and Balkan countries and others which have been under blockade, having expanded their food production during the war, will likewise be justified by immediate post-war conditions in maintaining their new high level. If to the enlarged output of these nations the harvests of those regions whose devastation has caused famine are later added, a great surplus will flood over the world — so it would seem.

It is to meet this future problem of relative abundance that comprehensive planning is most imperative ; and the first stage is to discover the principles on which such planning should be founded.

### *The Poverty of the World*

At the outset it must be asked, In what sense can the abundance be

regarded as real? Clearly this question must be considered in relation to the fact that the world, taken as a whole, is miserably poor. According to Colin Clark's estimates in *The Conditions of Economic Progress*, the average annual real income per head is but 500 international units or less for 81 per cent. of the world's population, an international unit being the amount of goods and services which could have been purchased for one dollar in the United States over the average of the decade 1925-34. Much of the poverty arises from the failure of densely populated agricultural nations to provide even the bare edible necessities of life for themselves. Were they to produce more, this would in no wise increase the world surplus if they discovered the art of distributing it to their own people.

While there is no unique relationship between the density of the agricultural population and productivity per head, a short statement will reveal the general position and prepare the way for the later discussion of output in relation to an assumed optimum diet.

DENSITY OF AGRICULTURAL POPULATION AND PRODUCTIVITY PER HEAD (I.U.) \*

Country	Males occupied in Agriculture per 1000 Hectares Arable and Pasture Land	Productivity per Head	Country	Males occupied in Agriculture per 1000 Hectares Arable and Pasture Land	Productivity per Head
Australia † .	7	1524	France . .	134	415
Argentina .	7	1333	Denmark . .	146	642
New Zealand .	20	2444	Germany . .	162	490
Uruguay † .	23	1000	Switzerland .	166	433
U.S.A.† .	25	661	Czechoslovakia	205	287
Canada † .	35	618	Poland . .	206	195
U.S.S.R. .	64	88	Holland . .	235	579
Great Britain .	70	475	Belgium . .	388	394
Estonia . .	79	268	Japan . .	868	120

\* See Clark, *op. cit.* p. 246.

† Area of pasture not recorded. Assumed to be five times the area of arable (the ratio found in Argentine and New Zealand) in Australia, Canada and Uruguay. For U.S.A. crops and pasture are assumed to cover one-half the total area of the country.

One male worker in New Zealand, Australia and the Argentine produces sufficient for an optimum diet reckoned at 60 I.U. per head for 40, 25 and 20 persons respectively. In reality, on the average, more than this optimum is consumed in those countries. But it can be seen that a relatively small labour force is required to meet their own wants; and after that the remainder is available for export. Similar figures for Uruguay and U.S.A. are 17 and 11 respectively, while for Poland,



Japan and Russia the figures are reduced to 3, 2 and less than 2 respectively. When it is remembered that the ratio of workers to population in most countries is about 40 per cent., it is clear that for numerous people a diet well below optimum is at present their lot.

So long as such dire poverty persists in the most crowded lands, the planning of Agriculture can never justly be founded on restriction. Rather, the true policy is to improve the standard of food consumption. And the object of enquiry is to discover, in the first place, by what processes the standards of agricultural countries themselves can be raised.

Briefly, the problem of Agriculture is here construed as meaning that of providing everyone, in peasant lands especially, with the equivalent of an optimum diet of 60 international units.

### *The Method*

A major part of the solution is for such countries to change over from agriculture to industry, manufacture and the provision of services. This general remedy in fact underlies all the measures, national and international, proposed in this chapter. It is a remedy involving the attempt (a) to withdraw surplus population from Agriculture, (b) to farm the land in larger units with more machinery and fertilisers, (c) to increase the efficiency and output of Agriculture and (d) to distribute farm products in larger quantities to both industrial and agricultural workers. The policy is typified by the transition developing in the U.S.S.R.; and it is worth noting that in this case the above objects have been partly gained together with a marked *diminution* in the export of grain since 1930, a condition beneficial to certain other countries.

The reasoning which supports this central proposal is suggested by statistics showing the proportion of workers engaged in primary, secondary and tertiary industry in the different countries. Primary industry covers agriculture, forestry and fishing. Secondary industry comprises manufacturing, mining and building. Tertiary industry includes the provision of services of all kinds, together with commerce, finance, communications and transport. It is noticeable that the wealthiest countries invariably show a large proportion of their populations engaged in tertiary industry. This is true even of nations like New Zealand, which have been regarded as belonging essentially to the class of primary producers.

**PROPORTION OF POPULATION EMPLOYED IN PRIMARY, SECONDARY AND  
TERTIARY INDUSTRY**

Country	Average Real Income per Head, 1925-34	Industries		
		Primary, %	Secondary, %	Tertiary, %
U.S.A. . .	1368	19.3	31.1	49.6
Canada . .	1337	34.5	23.2	42.3
New Zealand . .	1202	27.1	24.2	48.7
Great Britain . .	1069	6.4	43.9	49.7
Argentina . .	1000 approx.	22.6	43.0	34.4
Australia . .	980	24.4	29.4	46.2
France . .	684	25.0	39.7	35.3
Germany . .	649	24.3	38.5	37.2
Japan . .	353	50.3	19.5	30.2
Poland . .	352	61.6	18.0	20.3
Italy . .	343	42.9	31.1	26.0
U.S.S.R. . .	285	74.1	15.4	10.5
India . .	110	62.4	14.4	23.2

From the above table<sup>1</sup> it is seen that in the United States, Great Britain, Australia and New Zealand, where income standards are high, nearly 50 per cent. of the people are engaged in tertiary industry, though the proportion in primary industry varies enormously. The lower half of the picture indicates the position in less wealthy countries, prompting the deduction that it is in every country's interest to associate agricultural development with a considerable expansion of tertiary production.

Certain incidental gains from transferring workers from Agriculture, whether to industry or to the professions, may be mentioned. Such transfer will increase the output of manufactured goods and professional services, thereby affecting the "terms of trade" when farm products are exchanged for such goods and services. During the peace interval one chief cause of the sufferings of agricultural countries was that the prices of their exports dipped far below the prices of manufactured goods, so that exchanges with other countries were made on poor terms. If secondary and tertiary production is everywhere extended, agricultural lands will fare better.

Furthermore, farm prices largely determine farm wages; and an initial step towards raising the diet of the land community itself to the

<sup>1</sup> Clark, *op. cit.* p. 179.

optimum level of 60 international units is to adjust farm prices. The disparities between land-workers' wages and those paid in towns are notorious. In Great Britain, Germany, Holland, Switzerland, Scandinavia, Czechoslovakia and elsewhere, agricultural wages in peacetime have been little more than half the rates paid to urban workers. In Canada the proportion has fallen as low as one-fourth. If the stated view of economic progress is valid, it is unsound to seek a remedy for these wage disparities otherwise than by arranging for less relative employment in Agriculture, so that agricultural prices and wages may show a relative improvement.

### *Farming Technique*

To withdraw workers from the land will be of little avail unless it is accompanied by improved husbandry. Some statement of possible methods of raising efficiency on the land is therefore necessary to complete this sketch of the aims in view.

The various lines along which Governments might promote advance include the following :

(1) *Research, and the application of the known results of research.*—According to the report on *World Agriculture* by the Royal Institute of International Affairs, "If it were possible to help individual farmers even in the more advanced countries to apply in their daily work the results of the research already accomplished, there would be a revolution in agriculture". How much more, then, it seems reasonable to ask, might not the less advanced countries profit?

(2) *The formation of Purchasing (Distribution) Boards.*—As noted earlier, a Purchasing Board in the hands of the Planning Authority can be a means of tactfully obliging farmers to adopt specified methods of production. However, its chief purpose is to secure the reduction of margins. The efficiency of Agriculture includes the efficiency of distribution of its harvests. It is the ultimate price to the consumer, covering not only the farmer's return but also the costs of transport and insurance, and the margins exacted by agents, wholesalers and retailers, which determines the extent of the consumer's purchases. There are grounds for believing that orderly distribution by the State would bring advantage to both consumer and producer.

(3) *The re-allocation of farmsteads.*—Whereas small-scale intensive farming may be justified in certain conditions, it calls for most critical

scrutiny wherever it has resulted purely from the surge of new population and traditions affecting the inheritance of land. *Parcellament*, strip-farming and small-holdings should everywhere be submitted to test by comparison with local experiments in large-scale farming.

(4) *The provision of good seed, stock and fertilisers.*—The avoidance of adulteration of stock and seed is of the utmost importance. Whenever Government aid is offered, it might be made subject to willingness to observe the counsels of itinerant experts.

(5) *The provision of machinery.*—The most economic use of machinery might result from the establishment of Government centres for the loan and repair of agricultural implements.

(6) *The provision of credit.*—Usurious credits are the bane of farming. In some countries, India for instance, they have led to conditions scarcely distinguishable from slavery. A comprehensive State credit system would largely destroy this evil; moreover it might be used, in the same manner as a Purchasing Board, to secure sound methods of production, to sustain farmers who learn swiftly, and thus to raise the efficiency of agriculture.

### *International Application*

The double policy of transferring land workers to secondary and tertiary industry and at the same time raising efficiency on the land calls for widely different action in the various nations. In the Argentine the desired application might follow the Russian pattern: large new towns might be formed with industries based on hydro-electric power, the construction being assisted by imported capital and technicians. Considerable development has already taken place in this direction; and when it has reached its due limit there will remain even greater scope for tertiary industry. In India the special genius of the people may call for altogether different methods of arriving at the same result. Nothing could be more urgent than to relieve pressure on the soil, and to this end labour transference to trades and services is imperative. But in view of the density of the population, now approaching 400 millions, concentration in towns might prove an irrevocable disaster. The alternative—the founding of village industries—presents, however, the special difficulty that there is no natural source of capital for setting up local works. However primitive the machinery used, it would be needed in immense quantities.

Effective planning, therefore, might call for a system whereby the Federal Government would itself produce the machinery in State factories for loan to responsible individuals in villages and small towns. International aid might take the form of loans of capital and skilled labour for setting up the factories.

To yet another country, Japan, it would be desirable to offer a quite distinct form of aid. Japan has for many years been adopting the policy here outlined in order to secure a rising standard. Labour has moved in a steady stream from Agriculture to industrial, commercial and financial occupation, and now Japan is an exporter of merchandise, while receiving a considerable net import of "grains, flours, starches and seeds". Moreover, there is ample local capital to sustain further development. The bottle-neck in this case is raw materials.

Every country's economy is unique, and the planning of international aid will inevitably proceed from a study of the traditional growth of each country's industry. If the study is directed towards the joint tasks of raising farming efficiency and expanding alternative trades, the most suitable form of foreign aid will become apparent. Sixty or more separate enquiries will be needed.

### *International Planning of Consumption*

A financial problem emerges at once whenever a production problem has been solved. Enhanced capacity to produce calls for enhanced capacity to consume; and this in turn involves elaborate fiscal and monetary measures for raising consumers' incomes. Where the market for the increased product is world-wide, as in the case of agricultural output, the financial planning will also need to be world-wide.

The urgency is again emphasised of convening an International Conference to organise a complete chain of national plans designed to raise consumption. Four stages are involved in the planning. First, it will be necessary to determine the *optimum diet* for each country. Secondly, the task of reorganising the country's agriculture and industry, to make such a diet physically attainable, will need to be considered. Thirdly, while measures to this end are being set in motion, it will be necessary to lay down an immediate practicable minimum standard of living<sup>1</sup> for the country's population — this

<sup>1</sup> I.e. a scale of minimum standards. See pp. 295-303.

minimum being based on the country's existing capacity to produce. Fourthly, two aspects of the financial problem will arise : (a) the devising of budgetary measures for raising all low incomes to the approved minimum standard ; (b) the raising of other incomes until the national total of income yields a volume of consuming power adequate to absorb all that the country's land and plant can produce when labour is fully employed.

These are, of course, not the sole objects of international planning ; they are the features most intimately affecting Agriculture ; and it will be the purpose of Volume II to consider the combining of the various tasks into a coherent scheme.

### *Great Britain's Part*

The transition from agricultural work to other employment has proceeded further in Great Britain than in any other land ; hence, the emphasis for this country will rest on the two remaining aspects of the world programme outlined : increased efficiency of Agriculture, and the raising of standards of consumption.

Two recent enquiries deal with these facets of the question. The investigation carried out by a group under the leadership of Viscount Astor and Mr. B. Seeborn Rowntree sets in the forefront the development of a national policy of improved nutrition. Technical efficiency on the land is the main concern of Sir A. Daniel Hall in his personal research, the results of which are published in *Reconstruction and the Land*, issued in 1941. An outline of his recommendations may be given first.

The central proposal is State acquisition by purchase, at prices governed by Schedule A valuation, of all land lying outside the jurisdiction of the city, borough or urban district Authorities. This recommendation is based purely on the need for enabling the State, as the Authority responsible for giving vast subventions to Agriculture, to spend the money economically and in such manner that the efficiency of Agriculture itself will be enhanced. The chief points in the argument for land nationalisation are that (a) private landlords as a class have neither the will nor, in general, the capital to undertake development on a large scale ; (b) the most important types of development, such as altering the constitution of the soil, drainage, reclamation, clearing and reconditioning, cannot be carried out economically except on a

thoroughly comprehensive scale over areas defined by the natural features of the land ; (c) the system of subsidies, whether for the drainage or other improvement of the land or for directly assisting farmers, is unsatisfactory inasmuch as it tends to confirm farmers in old ways of husbandry, and implies the partial subsidy of landlords, the State being rarely in a position to recover any of its capital outlay ; (d) the State as landlord could effect a progressive redistribution of land into more economic units permitting the use of machinery and large-scale methods ; (e) it could control the use made of the land and eliminate the bad farmer who destroys the fertility of the soil. The author gives much evidence indicating that the proper treatment and reconditioning of British soil would raise its productivity to a degree hitherto scarcely conceived, and would bring into cultivation large tracts which have formerly been waste.

As regards the administration of the land, the proposal in *Reconstruction and the Land* is that two agencies should be employed. The State-owned territory should be administered in the first instance by the Commissioners of Crown Lands — already the largest land-owners in the country — on their present methods through approved firms of land agents. But the work of developing, draining or reclaiming land should be done by a body untrammelled by political pressure or Civil Service method, a British Agricultural Development Corporation under the control of men of business experience or other qualification in the sphere of engineering, farming, or scientific or technical knowledge. In the projected scheme, this Corporation would be financed by the Treasury, and therefore subject to its audit and control ; but the Corporation would have autonomy in its conduct of business and finance. Having leased certain areas from the Commissioners of Crown Lands, it would divide the land into economic units and proceed to develop and reorganise it for farming under modern conditions, later returning the land, as a rule, to the Commissioners.

### *Marketing and Distribution*

A further series of proposals from the same source relates to the distribution of farm products. The wartime scheme for milk distribution, however, will give effect to much that has been suggested, and this State scheme, announced in June 1942, is therefore the best point of departure for further discussion.

Briefly, the intention is that the Minister of Food shall rationalise the marketing, transport and delivery of milk with the aid of the Milk Marketing Board. The Board is to purchase the milk from producers.<sup>1</sup> The Minister of Food will then buy the milk from the Board and sell it simultaneously to distributors and manufacturers. The price paid by the Minister of Food will vary according to specified grades — the grading system being administered by the Minister of Agriculture.

In selling, the Minister will charge uniform prices for milk, whether it be used for liquid consumption or for manufacture.

As regards distribution, the producer will deliver his milk at a collecting depot or other destination determined by the Minister of Food. From there it will be collected in accordance with a series of regional schemes designed to eliminate overlapping and cross-hauls. Arrangements will be made for pasteurising or brine-cooling.

Finally, the house-to-house delivery will be effected in accordance with schemes, voluntary where possible, to be drawn up "with strict regard to the economical use of transport and man-power". These schemes will be prepared by associations of dairymen in each urban area, and then sanctioned by the Minister of Food. In the absence of voluntary agreement the Minister will impose a plan.

In sum, under these general arrangements the Minister of Food (a) determines the quality of milk that shall be accepted for different purposes, (b) determines the price that shall be paid to producers for the different qualities — the Marketing Board, as first recipient of the price, being permitted to vary the prices passed on to producers in different regions, (c) fixes the uniform prices paid by the wholesaler and the retailer, (d) is responsible for rationalising the system of collection and delivery of milk and (e) retains complete control over the distribution of milk and can direct it to any part of the country where it is required.

This scheme would form a pattern for the distribution of any commodity which, in the first place, can be exactly graded and, secondly, has a fairly steady and controllable supply. Eggs and cheese might, for example, be similarly treated. In the case of vegetables, the chief difficulty is that they cannot easily be standardised, and except for

<sup>1</sup> The scheme does not cover producer-retailers, and thus leaves a gap which may imply serious weakness. In this account of the scheme, however, the concern is to present certain of its positive aspects as illustrating one method of control of distribution.



potatoes and other particular commodities in great demand, they do not lend themselves to organised marketing, otherwise than through complete nationalisation. Every agricultural commodity could, of course, be marketed in an orderly fashion by the introduction of a national administration to perform all functions between the collection of the product from the farmer to the delivery of it to the manufacturer or retailer. Direct State marketing of this nature would be especially valuable in the case of fruit, since it would be the means of eliminating much wasteful cross-transport, while making possible the guarantee of reasonable prices for harvests large or small. Further, if State factories were set up for preserving, tinning, bottling or drying fruit, the surplus in bountiful years might be largely saved.

The requirements in every scheme are : price control designed to narrow the gap between the farm price and the retail price ; and, to the same end, the avoidance of overlap, half loads and other wasteful conditions in marketing and transport. The State's new plan for milk will yield these results in some degree through the voluntary collaboration of farmers and distributors. Where voluntary schemes cannot fully meet the need, the alternative of direct State administration should be tried.

### *Consumption*

The programme suggested by the group whose findings are published by Viscount Astor and Mr. Seeböhm Rowntree in *British Agriculture* has much in common with the foregoing. State purchase of land is recommended, but the agencies proposed for reorganising and developing it are regional Land Improvement Commissions. The chief gains from regional control would appear to be that intimate local knowledge of the peculiarities of the soil may in many areas be important, and that progress will be accelerated if several expert bodies can be simultaneously engaged in improving farm land. Possibly the best solution would be a combination of this proposal with that of Sir Daniel Hall — a considerable number of regional "Corporations" being constituted with largely autonomous powers after the fashion of the proposed British Agricultural Development Corporation.

The central and fundamental feature of the Astor-Rowntree agricultural plan is the evolution of a national policy of improved

nutrition. The cardinal aim, it is contended, is to stimulate the consumption of milk (pre-eminently) and of fresh fruit, vegetables and eggs. These are the "health-protective" foods. And it is in the production of these foods that British Agriculture has the greatest natural advantage over the foreign producer.

The continuance of subsidies for food production is strongly recommended, but it is urged that the subsidies should be directed towards greater consumption of milk and other health-protective foods rather than being used to support types of cultivation in which the home producer is at a disadvantage. The practice of attempting to enlarge the domestic production of staple foodstuffs such as wheat, meat, bacon, beet sugar, butter and cheese is considered unwise. But the extensive development of grasslands for cattle is emphatically approved. It is pointed out that the *per capita* consumption of milk by the British people is extremely low and that, were it increased by one-third of a pint per day, this would entail an expansion of natural milk output of no less than 65 per cent.

### *British Agriculture after the War*

The conclusion from this brief account of the findings of other enquiries may be stated as follows. The keynote of agricultural policy in this country should be the deliberate scientific raising of standards of diet. This demands an approach from two ends. It is necessary to cheapen, by subsidy and increased efficiency, the most vital articles of food. And it is necessary to prevent the consumer's purchasing power from failing. Above all, depression and unemployment must be avoided.

After the war the most profoundly important immediate guarantee to be given to the farming industry will be a Government undertaking to prevent deflation. Next in significance will be concerted measures for raising the scale of standards of living and achieving an optimum diet. Thereafter much can be done for farming through the provision of capital by the State as landlord. And the final guarantee would be the development of a State system for marketing the products of Agriculture, so that a fair share of the price shall remain to the producer.

## CHAPTER XIX

### *Home-Consumption Industries*

THERE are certain large industries which while differing from one another markedly in structure have this important feature in common, that they produce consumption goods primarily for the home market. Their fortunes depend on the spending of British incomes. The method of planning and expanding them is through the national plan as a whole, though each may be sustained by direct measures for enlarging its particular market.

These home-consumption industries are distinguished from certain others examined, such as *Engineering, Iron and Steel, and Shipbuilding*, by the fact that they produce little capital equipment. They differ from Cotton and Coalmining inasmuch as their overseas trade is small. And they are in general more sheltered from foreign competition than, say, Shipping.

The group includes the Clothing industry, Leather Goods manufacture, Agriculture, Food manufacture, Drink, Tobacco, House-building and its auxiliaries, Woodworking, Public Utilities, Inland Transport, Distribution, Motor Cars (private) and Cycles, Radio, Chemicals, Potteries, Glass, Publishing, Printing and Paper-making, Entertainments, Hotels, Laundries, State and Municipal Services, Banking, Insurance, and Professions of all kinds. In peacetime, industries in this group employ approximately three-quarters of the total insured working population of the country.

More important than the relative size of the group is that it constitutes the "expansion area" in any national plan. After the war, when other branches of economic activity contract, these home-consumption industries must be swiftly enlarged; otherwise there can be no prospect whatever of effective long-term reconstruction. These industries form the one main centre of labour absorption.

In the present enquiry it has been impossible to examine any considerable number of the trades concerned, and it is proposed here to give illustration from one particular industry which, though small,

is typical of the entire group in the sense that its prosperity depends on every aspect of the national plan. The Carpet industry of the Clyde, selected for this purpose, is affected directly or indirectly by (a) the physical planning of Great Britain, (b) the financial planning of British incomes, (c) the national planning of investment, (d) the system of taxation and (e) in some measure, foreign trade policy.

(a) *Physical Planning*

An outstanding factor affecting the Carpet industry is the growth of housing. More houses call for more carpets, large houses for large carpets. Whenever, especially, there is a move from old, dark, condemned dwellings to a new sun-flooded estate, the old scarcely visible floor-covering no longer serves. The choice is between no carpet at all and a new presentable one. According to one informant, there is an almost perfect correlation between carpet sales and the expansion of building estates.

An example of the close connection between housing and carpet manufacture is given by the action of the Government of Eire in encouraging a Glasgow firm in this industry to set up a factory in Eire. The Government in the first place had undertaken the reconditioning of country cottages on a large scale by adding to each a living-room, well-built and less liable to encroachment by farm stock than other parts of the cottage. This addition soon gained a new dignity and became known as "the room"; and its distinction was then found to be incomplete without the further addition of a carpet. The Glasgow firm was brought in to produce the carpets locally, and was granted a privileged position by the Government.

This industry is but one of many which are greatly influenced by physical planning. It belongs to the class including Furniture, Paint, Timber, Brick and Tiles, Quarrying and Public Contracting which at all times reflects the national development of house and road construction. The moral can scarcely be over-emphasised. Whatever success the Government may have in stimulating activity through physical reconstruction after the war will be at once felt by all the above industries. Their fortunes are in its hands. Through them it can give employment to many thousands of workers.

If the Government should decide to use building and construction as a principal means of countering depression, the Carpet industry may

even prosper more when others decline than when trade as a whole is swinging upward. Such a paradox depends on the weight and vigour of the Government's action. There can be no doubt, however, that the Government could, if it would, expand the Carpet industry, amongst many others, as part of the means of planning "compensatory" employment.

(b) *Consumers' Incomes*

That the growth of housing is not the sole influence affecting this section of textiles is clear from current experience. Despite the slowing down of building in 1939 and 1940, the demand for carpets during these first war years was surprisingly well maintained. Probably the explanation is that when wages and other incomes rise, as they have done in Glasgow, one early use of surplus is to enliven the home. The Carpet trade benefits. In general, therefore, the object of planning should be a combination of two aims: the promotion of housing, together with a strong reinforcement of rising incomes.

Examples might be multiplied showing the virtue of directly associating an increase in consuming power with physical planning. The Publishing, Printing and Paper trades will gain most when the erection of schools, colleges and libraries is supported by family incomes yielding a margin for the purchase of books. Railways and Road Transport prosper when the building of seaside hotels, amenities, camps and places of entertainment is accompanied by holiday grants. The Motor industry is favoured by good roads and comfortable salaries. Leather and Boot and Shoe manufacture, Clothing, Textiles and Sports Outfitters will realise considerable advantage when the laying-out of new playing-fields is supported by ample allowances for children and schools.

In economics the vital truths are the platitudes. Let the people *spend*. Therein lies salvation in the form of health and abundance of every physically sustained value in life, together with success in the main enterprise contemplated here: the conquest of unemployment.

(c) *National Investment*

The theory of the "multiplier" which held attention for some years before the war is an abstract statement of a truth which every inhabitant of Glasgow knows through harsh experience. The theory

indicates that when there is a rise or fall in investment, the ultimate total effect on employment, due to the continuing repercussions of demand, may be two or three or more times greater than the initial direct effect. The chief way in which this finds expression on the Clyde is through shipbuilding. Severe depression in the shipyards seems to cast paralysis over an area holding nearly one-third of the people of Scotland. A revival in shipbuilding brings equally widespread recovery.

The local Carpet trade is directly influenced by shipbuilding through the demand for special-quality goods for the floors of luxury liners. Furniture, Painting and Decorating and the Chemicals industries similarly gain from passenger-ship construction. Doubtless, however, it is through the increase of wages and demand over the whole area of the Clyde, whenever ships of any description are being extensively built, that these home-consumption industries prosper most.

It follows that if, in the post-war plan, a new stability can be imparted to the various capital-equipment industries — in particular, Shipbuilding, Factory-building, Engineering, Iron and Steel and Public Works — the planning of all home-consumption trades will be much simplified. The Government will be faced no longer with the need for compensating extravagant fluctuations in investment; its sole task will be to plan and expand the demand for consumption goods by a steady rise in the standard of living.

#### (d) *Taxation*

In the course of enquiries into the Carpet industry, a point was raised concerning the adverse effect of ill-considered taxation on business incentive. The particular issue was somewhat specialised: namely, tax discrimination against private partnerships. However, it affords one illustration of the need after the war for an exhaustive examination of the British tax system from the point of view of its effect on industrial motive.

The argument relating to private partnerships runs thus. One chief weakness of industry at the present time is lack of enterprise among directors, who are aided and encouraged to take responsibility lightly by the existence of limited liability. In a limited company the personal stake of the directors is often not considerable enough to

compel them to be truly active and concerned. There would be much less inducement to form limited liability companies were it not that private partnerships are penalised by the Government. The chief penalty is the taxation of income at the source in such a way that private partnerships pay more heavily than limited liability companies, especially in respect of surtax. The way in which this comes about is as follows. Most efficient firms make reserves for depreciation and obsolescence in amounts much exceeding Government allowances. The firm is taxed on the excess amounts as though they were profit. In the case of a limited liability company, the taxation of such excess amounts is limited to ordinary income tax, and the remainder of untaxed income is passed on to the dividend receiver. If the dividend receiver is subject to surtax, he pays surtax only on the dividends received. In the case of private partnerships, however, the surtax-payer would pay surtax on the whole profit, including the disallowed-depreciation part of it.

The result is that when a partnership reaches a certain size it tends to abandon its legal status for that of a limited company, and in so doing paves the way for later inheritors of the business to control it at their ease.

It may be added that depreciation on buildings is not allowed in any industry as a charge against profits for computation of liability to tax. For every amount disallowed, it is necessary to set aside three or four times the amount of profit (if taxation is two-thirds or three-fourths) in order to make provision for the depreciation. Similar heavy charges are involved for meeting every item disallowed, whatever its nature or purpose. And in view of this, firms may be almost coerced into making seriously inadequate provision for repair, replacement, depreciation or obsolescence.

It is said that, in the United States, machinery and other plant are replaced at a much more rapid rate than in this country. If this is a handicap to British industry there might be value in comparing the two revenue systems to discover whether the meagre allowances for depreciation and obsolescence in the British system are a serious impediment to swift replacement.

Such thoughts lead to a much broader problem. After the war, taxation will inevitably rise above pre-war levels. If the volume of

consumption is to be efficiently planned, the State will require a great enlargement of its revenue. Manifestly it is in the interests of producers themselves that consumption should be expanded by one method or another. But if this is to be accomplished partly through taxation, by what means, it may be asked, will it be possible to collect enough revenue without striking at the incentive to produce?

The problem becomes particularly acute where capital taxation is involved. Even before the war, death duties, surtax and income tax in the aggregate absorbed not much less than 100 per cent. of the largest incomes. If there should be an increase through higher death duties or some other capital tax, the aggregate may considerably exceed 100 per cent. of income. In these conditions it is to be questioned whether any financial stimulus remains to the producer at all.

One method of preserving incentive, it is suggested, would be to make a sharp distinction between earned and unearned capital. Advantage to active producers can still be assured if their earned savings are partly exempted from taxation. Accordingly it is recommended that income distinguished as "earned" should, as at present, be specially treated for purposes of income tax, and that the cumulative total of "earned" income left to the taxpayer should be partly exempted from capital taxation so long as it continues to be represented by an increase in his personal capital.

The method might be made retrospective for a few years through the examination of the taxpayer's former returns of income. Purely from the point of view of preserving incentive, it would not, of course, be necessary to reward exertions long past.

#### (e) *Foreign Trade*

The total value of carpets and rugs "made for sale" in 1935, according to the Census, was £10,900,000. Exports amounted to £1,778,068, or 16 per cent. of this output. Imports were somewhat less at £1,421,114.

As regards carpets and tapestries made of wool, 16.7 per cent. of production was exported, while the share of the home market held by British goods was 88.9 per cent. Such figures are probably representative of many trades considered in this chapter.

Other home-consumption industries which both export part of



their output and experience competition from imports in the home market include sundry Textiles, Chemicals, Leather trades, Paper, Publishing and Printing, Electrical goods and Motor Car production. If a poll were taken among these on the desirability of lowering or raising tariffs universally, opinion would doubtless be keenly divided. One spokesman in the Carpet industry emphasised the great value of bringing down American tariffs; another considered it important to keep the British market clear of cheap imports. A Government could scarcely gain such conflicting ends in every sphere of manufacture.

The notion of national planning introduces an entirely new bias into the discussion of free trade. In a system of planning it is above all essential that the Government should have an *assured* control over the volume of demand. A secure foreign market is more helpful to it than a somewhat larger, fluctuating, uncertain foreign market. The one can be supplemented by prearranged developments in the home market; the other calls for much more difficult *ad hoc* adjustments.

It may be concluded that in any system of planning Governments will attempt to secure firm international contracts covering a period of years, since this policy will yield a solid basis for the national plan. Whether through multilateral or bilateral arrangements, the British Government will no doubt attempt to establish long-term commercial contracts large enough in the aggregate to finance the import of essential raw materials. Its operations will be simplified wherever there exists organisation covering the entire national export of a commodity. Hence the industries which may be expected to gain most from the system of planned bulk exchanges are those which have developed co-operative organisation for export.

Through the creation of Export Groups some industries have advanced far in the desired direction. The combined wartime experience of hundreds of these Groups should enable any one of them to organise itself as an Export Board and to satisfy every requirement of the national Planning Authority. The requirements would include (1) the ability to present, on behalf of all firms in the branch of industry represented, a list of potential exports, with exact specifications and prices based on existing costs; (2) the attainment, by conference, of the greatest possible standardisation of commodities for the purpose of export and advertisement abroad; (3) arrangements for checking the actual quality of goods exported to ensure that they are up to

standard ; (4) a scheme for allotting to firms any orders obtained through international barter.

The home-consumption industries are by definition less interested in export than others and may be less disposed to co-operate for securing foreign sales. For this reason it may be all the more urgent for the Government itself to promote organisation in these industries for the furtherance of national export planning.

### *The Broad Issues*

To give such brief space to those industries which are directly responsible for the welfare of three-quarters of the citizens of Great Britain, provide the entire population with much of its basic needs, and form possibly the sole instrument whereby the Government can re-absorb labour into employment,<sup>1</sup> may be misleading. The brevity should not be interpreted as implying unimportance. These industries, in truth, constitute the most vital mechanism of the national plan. They can be expanded to any degree desired — that is, to an extent governed only by the labour resources available. They can be enlarged to compensate the inevitable contraction of Engineering, Iron and Steel and Shipbuilding, and the probable decline of the extractive industries. Unless they are so enlarged there is little else that can be done to provide openings for the rest of industry's discarded forces.

The reason for the brevity is that there is no intricate economic problem to examine. The health treatment for all the industries concerned, and through them for the entire industrial body, is *adequate* physical planning combined with *adequate* finance for raising consumers' incomes. If space allowed is deemed to be an index of relative importance, these words should be written over two or three hundred pages of the book ; for they contain the essence of all that is most significant in economic planning.

<sup>1</sup> Building and Inland Transport, to which separate chapters have been devoted, are included in this home-consumption group.

## CHAPTER XX

### *The Banks' Part*

BANKS are the instrument of swift action in planning. Through the Clearing Banks, in particular, the Government can raise consuming power immediately in a crisis, provided that it has developed in advance a permanent scheme of co-operation with these institutions. It is the purpose here to outline one scheme, of which there may be many variants, for attaining this end.

The reasoning on which the scheme is based may be rehearsed as follows. The Banking system is the source of money. Whoever takes acceptable security to a bank is accorded the right to draw cheques ; and these cheques can be circulated as money or exchanged for notes. The bank thus "transforms" the security into money. The total money supply in the country depends on how much security is in this way transformed.

The Government itself can augment the supply by lodging security with the banks and drawing out money for making payments. If the Government increases the total amount of security held by the banks, it creates an addition to the total volume of money, and in no way diminishes the amount held and spent by private citizens. Hence the Government can at will both gain command of a fresh quantity of money and with it increase total consumption.

There is no limit to this process until the desired result has been secured. The Government can go on using new money to increase consumption until producers of consumption goods are for the most part working to capacity. Every increase in consumption tends to decrease unemployment. And unemployment can be progressively reduced till the only industries with a labour surplus are those which have at some time undergone exceptional, or disproportionate, expansion.

The scheme of Government-and-Bank co-operation proposed below is not primarily designed to deal with residual unemployment in such industries. It is put forward chiefly as a vehicle of wide influence and rapid effect. After the war there will doubtless arise

occasions when the whole range of industry is threatened with imminent collapse. In such emergencies there is need of an infallible plan to defeat mass unemployment ; and it seems that the banks can provide such a plan.

The first step in enabling the banks to become powerful allies of the Planning Authority is to make their security absolute, so that they may pursue any socially needful policy without the least threat to their own stability. For many years the strength of the British Banking system has been beyond question, but its firm position has been won partly by a rigidity of practice and regard for tradition which if continued in the future might impair its contribution to a national plan. For example, past insistence on liquidity has compelled the banks to hold assets having an extremely low yield. This, in turn, has obliged them to exact a compensatory high return on advances to constructive industry. The same demand for liquidity, together with the need for assets of unchanging capital value, appears to have imposed a limit on the banks' power to buy securities with a view to lowering the long-term rate of interest. In general, Banking policy has been marked by a degree of caution which, while being advisable so long as there remains the slightest risk of a bank's failure, is out of place when the risk has been permanently removed by Government action.

Several different devices might be invented for making the security of the Banking system absolute. The proposal below assumes the continuance of certain private-enterprise conditions : in particular, the retention of the profit motive, and the maintenance of the existing commercial banks as separate joint-stock institutions.

The central feature of the scheme is the issue, to banks only, of new Government securities which might be termed Treasury Par Stock. This Stock would be redeemable at par on the request of any bank with the consent of the Planning Authority. There would be an understanding that in the event of any emergency in which the note supply of the commercial banks was proving inadequate to meet the public demand, the Treasury Par Stock would be redeemed. The effect of the redemption of any Government Stock held by the commercial banks is to reduce " public deposits " at the Bank of England and increase bankers' deposits, so that the commercial banks automatically find their reserves enlarged and can thus command more notes.

This Par Stock might be ranked third in order of liquidity in the

commercial banks' balance sheets ; but for practical purposes the Stock would dispose permanently of the problem of liquidity. It would be issued to commercial banks in proportion to their average deposits for the past half-year, the distribution being adjusted at the end of each half-year. And it would be distributed in sufficient quantity to form a substantial liquid reserve. The aggregate amounts would, however, vary from time to time according to the Planning Authority's need of Bank credit.

The rate of interest on the Par Stock would be determined half-yearly, and would be such as to ensure that the aggregate profit of all the commercial banks in the country would remain a fixed proportion of their aggregate paid-up capital. In other words, it would safeguard the Banking system as a whole against loss, though it would not interfere with a possible rise or fall of profits in different banks resulting from changes in relative efficiency. The rate of aggregate profit to be assured to the banks would be the rate current before the introduction of the scheme.

The cost to the Government, being the aggregate interest on the Par Stock, would thus depend on the extent to which the Government's borrowing increased the net expenses of the banks. If the new Stock were to take the place of other liquid assets from which the banks were deriving a low rate of return, the interest on the Stock might be even lower than this rate. For instance, if " money at call " and short-term bills were no longer so urgently needed by the banks, the rates on these might be increased, and although fewer of such assets were being held, the aggregate return from them might not fall much. The amount of the small reduction in aggregate return would be the amount payable on the Par Stock.

If, however, the Government's borrowing caused a corresponding extension in the total loans made by the banks, the cost to the Government would be the marginal cost of bank accommodation. This would include the deposit interest on new deposits resulting from the Government's loans *plus* the annual cost of extension of bank services and premises. Since the general growth in a bank's custom involves the expansion of equipment, personnel and buildings at those of its manifold branches which are at the margin of enlargement, the appropriate cost of such expansion would be included in the marginal cost which the Government would have to pay. This expansion cost, comprising

extra salaries, and interest and depreciation on the additional capital outlay, would seem likely to be fairly constant per unit of new custom. It would amount to substantially less than the average rate of return on all the assets of the bank. Probably it would not much exceed 1 per cent.

The exact rate payable on the Par Stock could not be estimated in advance without reference to possible changes in the proportions of different kinds of assets held by the banks. This, in turn, might be influenced by Government policy. For instance, in view of the complete security given by this scheme to the Banking system, the banks might be required to increase very extensively their holdings of securities in order to reduce the rate of interest. Since securities give a higher yield than the average return on bank assets, this policy would increase the annual receipts of the banks, thereby diminishing the rate payable on the Par Stock.

The contrary result would, however, follow any Government requirement that the banks should reduce their rates on advances to Industry and Agriculture, or should allow preferential low rates to specified classes of borrowers.

In sum, the Par Stock with its adjustable rate would give the Government as Planning Authority the title to call for any policy which the national plan might require, it being evident that whatever financial result might follow, the banks as a whole would not gain or lose, their position in respect of both profit and note-supply being guaranteed finally and completely. The Government would meet the whole cost of its policy by compensating the banks every six months through the interest paid on the Par Stock.

### *Banking Co-ordination Committee*

A permanent link between the Planning Authority and the Clearing Banks might be formed through the creation of a Committee drawing representatives from every principal bank. The Chancellor of the Exchequer would normally preside over the Committee, and the National Planning Commissioner would attend as adviser. Its function would be to provide a contact whereby Banking policy might be consistently related to the national plan. The disadvantages of a purely dictated policy would thus be avoided, while the Planning Authority would be able to profit by the suggestions of members not

only on the planning role of commercial banks but also on those industrial aspects of the national plan which fall especially within a bank's purview.

The need for co-operation would arise in relation to six main aspects of post-war planning. The various occasions have been mentioned at other points in this book, but it will be convenient to note them here in chronological order.

### (1) *Government Finance after the Armistice*

For some months after hostilities cease Government expenditure will far exceed tax revenue. The gap may not be filled completely by public loans, since attractive openings for industrial investment will draw money away from the State. To avoid the necessity for offering high rates of interest, the State may resort partly to the banks.

This would provide the opportunity for introducing the above scheme. Outstanding Treasury deposit receipts might be converted into Treasury Par Stock, all subsequent borrowings being on the basis of the deposit of such Stock.

Money thus secured from the banks could be transformed into "consuming power", to reduce the risk of an Armistice slump, by being spent on war gratuities, pensions, salaries, wages, military pay and other forms of income due to State servants.

### (2) *Reconstruction Loans and Export Credits*

In the chapter on Engineering it was shown that after the Armistice there will be a special need for medium-term credit. The demand will arise first in relation to the reconstruction of essential industries: and it was suggested that the Ministry of Supply should be empowered to recommend selected firms for bank credits of fixed duration and interest rate, and that each bank which extends such credits should be secured by the deposit of Treasury Par Stock. This proposal would call for intimate collaboration between Ministry of Supply officials and branch managers of the banks. Administrative details might be worked out by the Banking Co-ordination Committee in conjunction with the Ministry of Supply.

Similar co-operation would be needed in the planning of guaranteed medium-term export credits, though in this case the Board of Trade would be the responsible Ministry (see pp. 179-83).

### (3) *A Low Rate of Interest*

Soon after the Armistice interest rates will tend to rise. Whereas in wartime the State has a virtual monopoly of borrowing and can safely offer low rates, in peacetime there will arise competition for savings from countless other sources, industrial, commercial, municipal and international. The demand price for the loan of money, chief governor of the rate of interest at all times, will begin to soar ; and rates will be offered much in excess of wartime levels unless drastic steps are taken.

It would be contrary to the planning system advocated in these pages to allow the rate of interest to rise. The general system proposed involves a combination of (a) an extensive series of measures for fixing maximum prices for standard commodities, and (b) under this safeguard, a policy of expansionism with a low rate of interest as one of several stimulants.

It follows that there will be perpetual need for collaboration between controllers of interest rates and controllers of prices. The Authority having oversight over the entire price structure, in the system proposed, is the Price-Fixing Board. If this Board should detect any serious weakening of the structure due to price evasion, it would be under obligation to report at once to whatever Authority was in control of the "expansion". This would be the Planning Authority in the first place. But this supreme controller might delegate responsibility for the rate of interest to some other body, say the Bank of England.

In any event, there would be gain if some central institution such as the Bank of England were officially required to place itself in contact with all agencies and influences affecting the rate of interest, with a view to aligning every trend or policy with the national plan.

An enumeration of the various influences affecting interest on capital would include : (1) the rates offered by the Treasury for its victory loans ; (2) the Bank's own open market operations ; (3) purchases and sales of securities by the Clearing Banks ; (4) the operations of building societies ; (5) rates on municipal loans ; (6) Bank Rate, the market rate of discount and the deposit rates of banks ; (7) the volume of export of capital ; and (8) all schemes for the planning of investment in particular industries. In addition it might be possible



to devise a system of regulating the maximum rates of interest to be offered on different types of industrial loan issued for public subscription.

A less tangible, though immeasurably powerful, influence is the market's expectation. If lenders and borrowers are of the opinion that interest rates will rise, their transactions will reflect this view. Both in the launching of new loans and in the sale of existing securities capital values will tend to be low and interest rates high. A method of stabilising market expectations has been suggested by Lord Keynes, the proposal being that the Bank of England should announce firm prices for the purchase and sale of selected gilt-edged bonds of all maturities (*General Theory*, p. 206).

The method could no doubt be made effective if the Bank of England were officially charged with the duty of co-ordinating all influences affecting interest rates, and were assured of the day-to-day collaboration of the Clearing Banks. A regular conference between the Bank of England and the Banking Co-ordination Committee to share the task of stabilising the values of particular gilt-edged securities would give strong prospects of success.

#### (4) *The Capital Levy*

The main function of the Banking system in smoothing the way for a Capital Levy is to counteract any tendency for share prices to fluctuate as a result of the levy. It is highly important that capital values should remain steady during the process of tax collection. In particular, securities which are to be accepted in payment of the levy should as far as possible remain constant in price. Further, if others have to be realised in order to permit payment, any fall in their value will be a hardship to the taxpayer, and justice demands that the Government should ensure their stability. Finally, serious complaints will arise if there are great changes in share quotations between the date of assessment of fortunes and the date of tax payment.

It is desirable, therefore, that the Bank of England's machinery for controlling security prices should be at work long before the launching of the Capital Levy. If this condition be assumed, the Bank's preparation for the levy will be in two stages. The first will consist in forecasting the influence which the levy itself will exert on the prices of different types of security. For instance, it will be necessary to

forejudge what classes of shares are likely to be sold by taxpayers to meet the levy, since the effect of the sales will be to force down the prices of the shares chiefly sold. Then, the subsequent effects of the use to which the tax proceeds are put must be considered. If the money collected is used initially to cancel National Debt, a relative scarcity of gilt-edged security will result and the price of such stock will tend to rise. If, however, the proceeds are used at once for enhancing consuming power, the prospect for equities will improve and a rise in their values may follow.

The second stage is to allot responsibility for countering any undesirable trend in share prices. In this all branches of the Banking system would take part together with other large investing organisations which had been drawn into co-operation by the Bank of England. Stability in the value of shares, as from the day of assessment, would be assured by mass sales and purchases to compensate the share transactions of the public.

(5) *Raising Consumption with the Proceeds of the Levy*

One purpose of the Capital Levy will be to finance the payment of tax credits accorded under the Finance Act of 1941. The intention is to redeem these credits at some time after the war when it is desirable to offset a tendency towards deflation. The requisite inflationary effect can be gained through a Capital Levy simply by using the proceeds of the levy for paying people who, on receiving the money credited to them, are likely to spend it. But the effect can be enhanced by calling the banks into play.

The levy will probably be imposed some months before the most suitable moment arrives for redeeming the credits. The capital drawn in by the levy will in that event be applied at first to the cancellation of National Debt. When the time comes for repaying the sums credited, the Government will need to borrow afresh. If it borrows from the banks, the effect will be rather more inflationary than if it borrows from the public; hence at least a part of the borrowing might suitably be from the banks.

(6) *The Long-Term Plan*

Finally, mention should be made of the banks' part in the system of planning which will assume its final shape by about the end of the third

year of peace. In the scheme proposed, State borrowing from the banks would at that stage be solely for the purpose of investment in durable assets such as houses, schools, public utilities and the plant of State Industries. The banks would not, of course, be required to invest in these assets themselves. They would lend money to the Government in return for Treasury Par Stock. The Government would either undertake the investment itself, as in the case of the setting-up of State Industries, or it would lend the money to municipalities, public utilities or other public investment agencies.

### *The General Function of the Bank of England*

For some time before the war the methods and responsibilities of the Bank of England were steadily undergoing change; and the introduction of a scheme such as the above will complete the transition. In gold standard days the chief anxiety was the metallic reserve. Bank Rate changes were the means of protecting this reserve. Open market operations supported the Bank Rate and were designed to make the rate effective in the discount market. Apart from the reserve proportion, the chief index which acted as warning to the Bank was the sterling exchange rate. The first stages of change came with the abandonment of gold, when the stability of the general level of prices appeared to enter into favour as one of the main objects of Bank of England policy; and the same instruments, the Bank Rate and open market operations, were used to promote low interest rates and the recovery of trade on the basis of fairly steady prices.

All such concerns will be swept away, except one aspect of them, as soon as a planning system is introduced whereby prices are fixed arbitrarily. The whole concentration of Bank of England effort, when the price structure is under firm control by other agencies, will be to spread its command over the forces which govern the rate of interest. The constant aim will be to hold down the rate by maintaining a high stable value for gilt-edged security; and even in emergency there would seem to be no need to modify this rule. Emergencies can arise only when business activity is reaching such a pitch of intensity that price evasion is becoming general. The antidote to the inflationary tendency might then seem to be a rise in the rate of interest. But an alternative method, more in keeping with the essential theory of the plan, would be to diminish the rate of Government expenditure. This

would lessen the rate of expansion of consuming power, thereby checking the upward thrust of prices, without the aid of other restrictive policies. In practice, therefore, a fixed low rate of interest might be regarded as a permanently irreversible object of Banking policy.

PART IV  
REGIONAL PLANNING

CHAPTER XXI

*Co-operation between National and Local Governments*

By PHYLLIS DEANE

THE extremely localised character of industrial activity presents a serious stumbling-block to the smooth performance of a national plan. In effect it is possible for large sections of the national community to reach practically full employment without stimulating certain depressed areas to a level even approaching their potential productivity. The stubborn problems presented by such localities at all times accentuate the difficulties of the authority planning at the centre, for they cannot be solved by any broad national programme. If they are to be adequately diagnosed and treated they demand specialised and local attention. Superimposed on the national plan, and becoming part of it, there must be a regional plan in each area for dealing specifically with the large local residue of unemployment.

The character of the regional plan will depend inevitably on the shape and scope of the national plan into which it is dovetailed. Throughout this Part it is assumed that the central Government is deliberately and successfully promoting a nation-wide plan designed according to the principles outlined in Part II. On this assumption, each regional plan must both conform to the larger programme and add to it. The regional plan will be concerned with the same three lines of action as form the framework of the national plan : the expansion of consuming power ; the fixing of maximum prices ; and the development of special industrial schemes. The chief *additional* contribution required of the regional plan is in relation to the last-mentioned : the devising of special schemes for the reduction of local depression.

In the programme here commended there are three main adminis-

trative channels through which the national planning authority can contact the particular regions and ensure the local application and reinforcement of its measures. The Local Authority itself provides one ready-made channel. It is well fitted to play an extensive part in the system of planning without much addition to its present powers. The second main instrument will be a Ministry of Labour and National Industry enlarged for the performance of certain new tasks. The third channel proposed is a new body with a Regional Planning Commissioner at its head. On him will devolve all the responsibilities formerly assigned to the Commissioners for the Special Areas, together with the new task of convening regional industrial conferences for planning the activity of private enterprise. In so far as the co-ordination of the efforts of these three agencies calls for initiative in the region itself, the task will fall to the Regional Planning Commissioner. He will have the general responsibility for preserving coherence in all parts of the regional plan, and between this and the national plan.

In this chapter interest will be confined to the planning functions of one of these administrations alone : the established Local Authority. It follows that there will be no discussion of fresh machinery at this stage. The concern is to discover how, in the first place, the Local Authority can assist the national Planning Authority in the expansion of consuming power. Secondly, since the Local Authority controls the prices of certain goods and services, its function in the system of general price regulation must be examined. And thirdly, it has a highly important role in the preparation of special schemes of housing and public works.

Of these, no doubt the first is of chief significance, for without a continuous rise in consumption in every locality the people will remain unemployed whatever else is done. Local consuming power depends at least partly on the Local Authority's action, since the Authority collects revenue and spends it, and is one agent for the spending of State revenue. It is essential therefore to consider how this action may most fully reinforce the national plan.

#### *Revenue for the Expansion of Consuming Power*

Before any Local Authority can undertake its full responsibilities, it must have access to sufficient revenue of the right kind. A community's consuming power can be expanded in relation to its produc-

tivity only if the amount or distribution of money can be so altered as to transfer a larger proportion to those groups with a tendency to spend more and hoard less than the previous holders. Moreover, special schemes for the relief of local reservoirs of unemployment will be completely effective only if they are sufficiently extensive and well-timed. A local planning Authority even of the most rudimentary kind must have command over revenues which are elastic.

The actual revenue and expenditure of the existing Local Authorities, while showing a remarkable all-round increase since the beginning of the century, has changed little, if at all, in response to the large variations in trade activity which have occurred. Indeed, the proportion of total revenue obtained from each of the main sources of local revenue varies so slightly from year to year as to suggest a certain lack of flexibility in the system.<sup>1</sup>

Excluding such items as fees, fines, tolls and income from property gifted to the burgh, which must be regarded for all practical purposes as completely inexpandible, there are only four sources of local revenue: taxation, borrowing, trading services and State grants. It will be convenient to examine these sources in turn with a view to estimating their expansibility and their effect on consumption.

(1) *Taxation*.—Local taxation in the United Kingdom is limited to a single tax on real estate — rates. In Scotland rates are levied on actual yearly value, liability is divided between owner and occupier with a slight bias to the benefit of the former, and the valuation roll is revised annually. In England rates are levied on estimated yearly value, the occupier alone is responsible, and a new valuation roll is drawn up

<sup>1</sup> TOTAL EXPENDITURE AND RECEIPTS OF LOCAL AUTHORITIES IN SCOTLAND COMPARED WITH THE UNEMPLOYMENT INDEX FOR THE COUNTRY AS A WHOLE AND TRADE ACTIVITY IN THE TWO PRINCIPAL SCOTTISH PORTS, 1928-34

Year	Scottish Local Authorities		Year	% of Insured Workpeople Recorded as Unemployed at End of January in U.K.	Value of Total Imports and Exports at	
	Expenditure	Receipts			Glasgow	Leith
	£	£			£	£
1928-29	67,827,603	68,053,421	1929	12.2	81,695,332	25,188,914
1929-30	67,892,293	67,768,753	1930	12.4	70,388,951	20,826,036
1930-31	68,570,890	70,255,276	1931	21.1	47,326,578	27,457,559
1931-32	69,759,857	69,308,486	1932	22.2	38,792,281	14,107,183
1932-33	67,960,218	68,351,458	1933	23.0	38,360,815	12,795,553
1933-34	69,496,783	69,811,501	1934	18.6	45,423,868	12,638,923

quinquennially. But in both England and Scotland the main effects are the same. Since rates are levied on the amount of income spent on a necessity they are highly regressive. That is to say, they tend to bear more heavily on the poor than on the rich. Except in so far as the poor man comes within the range of incomes affected by exemptions from rates and Rent Restriction Acts, and in so far as the rich man makes his home a form of luxury expenditure, the poor man pays tax on a higher proportion of his income through rates than a rich man. Again, except in so far as poverty forces them to live in squalid and overcrowded conditions, the large family pays heavier rents and so heavier rates than the small family. The burden of the poor may be further aggravated by the tendency of the middle and upper classes to avoid living in the highly rated areas and to move into the suburbs. Working people who form the bulk of the city population are then left to bear a still higher share of the burden which rightly belongs to all who draw their living from the city's industries or share in its services.

From this high rate of regression follow two important effects. The first is that the yield from rates must be very limited, for they are extracted mainly from a class of the community whose taxable capacity is low. The significance of this consideration is fully evident when it is remembered that rates are the only local tax, and that in consequence the more lucrative sources of revenue remain untapped. The second effect is that rates reduce consuming power to a very heavy extent. Not only are they a tax on that section of the population with a tendency to consume a high proportion of its income, but they leave the bank balances of those with a marked tendency to save relatively unscathed. Hence in a depression rates aggravate the difficulties of the temporarily unemployed and reduce their restricted consuming power still further. In prosperity their yield rises little despite the substantial rise in incomes.

Clearly, then, the existing local taxation system is inexpansive, inflexible, and a drag on local consuming power. Is there any other tax that could be turned to the use of the Local Authorities? The chief difficulty is one of adequately localising liability. A local income tax on the national model would lead to endless confusion, because it would be impossible to decide what proportion of each income earned or spent in the area was purely local and could be held liable to the



local as opposed to the national tax. A local purchase tax would rapidly become a mass of injustices and anomalies even where it could be made to stay, because a sub-national economy could not check the movement of goods across its borders from areas where a lower price prevailed. Evasion on a large scale would be unavoidable. Modified versions of these taxes — for example, taxes on certain higher income groups which draw their incomes from but do not live in the area, or on purely local commodities, or on differential site values — might prove practicable under certain conditions, but their yield would not be high after all administrative expenses had been met.

There is a further important objection which applies to all local tax variations. If the yield reaches significant proportions, and if the Local Authorities are permitted to make variations at all, they will upset the balance of the national taxation system in so far as that has been constructed on scientific lines. In a small national area it is possible to bring the tax system to a high degree of perfection. At the same time a very little interference will be sufficient to destroy that perfection. No new tax, therefore, should be introduced which cannot at the outset form an integral part of the national system, and the simplest method of ensuring this is to restrict the freedom of Local Authorities in the matter to negligible proportions.

(2) *Borrowing*.—Idle bank balances which rates fail to touch can, however, be tapped by borrowing. At the beginning of a trade depression, when there is a collapse in confidence of such a kind that borrowers cannot, in general, pay a high rate of interest or lenders accept a low rate where there is the least element of speculation, there is need for the intervention of some body whose credit and confidence are conditioned by other considerations than those affecting industry as a whole. Municipal credit is usually good; and in a state of universal pessimism lenders will accept the lowest rates of interest if they can be sure of their principal. Furthermore, a competent Local Authority should be able to deduce its own reasons for confidence from the fact that costs of capital and labour are as low as they will ever be if the slump in activity is not to become chronic, while any reduction in unemployment brings a corresponding saving in expenditure on Poor Relief. If the new investment is in social or constructional works it will serve to expand consuming power both directly and indirectly.

The principal limitation on Local Government borrowing is the statutory maximum to which the loan period is subject. The actual length of the period varies with the probable life of the asset to be constructed. Under the Housing Act of 1925, for example, it is as long as 80 years. But there is a general rule to the effect that each new loan must be accompanied by a new assessment equal in value to the interest plus a sinking fund contribution of 3 per cent. — thus visualising a loan period of about 33 years. Hence the real check is ultimately the weight of the rate burden, for unless it can be increased to the required extent, borrowing becomes impossible.

If this legal difficulty could be overcome, however, borrowing would still not be a desirable method of financing an expansion of consumption while stiff sinking funds are the rule. The speed with which they draw money from circulation is intolerable during a depression, especially so since they are raised from rates, and may even be one of the forces precipitating the slump. This danger can be largely avoided if sinking funds are utilised for investment purposes by one or other of the local departments as soon as they mature, and if contributions to sinking funds react appropriately to variations in industrial activity, falling to vanishing point at the first signs of depression and rising rapidly to check an excessive boom.

(3) *Trading Services.*—Generally speaking, trading services are not a source of any considerable profit to the Local Authorities. This is due, in the main, to the fact that they are largely public services in which social demands take precedence over commercial considerations. Hence their price policy is dictated more by social needs than by the state of their revenues. In effect, to raise the prices of such essential services as transport, gas or electricity to commercial levels would be to place a tax on the consumption of the poorest. It would therefore be difficult, perhaps impossible, to expand consuming power on the basis of such finance.

All trading services are not of this kind, however. Doncaster has its own race-course, a Cumberland Local Authority provides hotels and public-houses, while many Local Authorities supply amusements of some kind. Moreover, a tax on consumption need not reduce total consumption if the consumer is able to make use of money which he would otherwise have saved. Profits from a municipal airport, for example, or indeed from any luxury service, would not necessarily

reduce consumption over the community as a whole.

It is not always easy, however, to distinguish between luxury and necessity when it is admitted that the citizen's needs include more than a bare subsistence. The concert parties and games in Glasgow's parks, for example, operate at a loss. Presumably the Corporation recognises a social value in these amusements which compensates for the burden. Nevertheless, wherever the service on which the tax is laid is definitely a luxury, there may be a net gain in local consumption when the tax revenue is transferred to people with little or no surplus income available for saving.

Permission to undertake commercial services of this nature is not readily obtained, however. The interested and watchful eye of the ratepayer is quick to detect the possibility of a loss, while Westminster has proved extremely reluctant to extend local powers in the matter of trading services. But the ratepayer's hostility would doubtless fade if he were guaranteed against bearing a loss, and the Central Government might welcome a new source of local revenue if the national taxation system were feeling the strain of heavy expenditure on expansion of consumption. Nor is it always necessary to launch totally new enterprises. Many local Departments could develop a trading service without heavy initial expenditure. Glasgow's Lighting Department, for example, supplies a window-cleaning service at a charge to the other Corporation Departments. This service might be extended to other public institutions, as could the services of the Printing and Stationery Department. Or again, a nursery associated with Glasgow's parks might supply bedding plants and shrubs to the public at commercial charges.

Nevertheless, if a substantial income is to be obtained from any trading service, there must be some appreciable initial expenditure, and under the present system any such expenditure is dependent directly or indirectly on the basis of revenue provided by the rates. Even the possibility of obtaining a loan depends on the ability of rates to support the extra assessment required by law.

In sum, to a Local Authority seeking funds with which to finance an expansion of consumption, rates are of scant assistance, not only because their yield is limited, but because they are in themselves a factor making for the reduction of consumption. Borrowing is a useful method of raising revenue for expenditure on services which

directly or indirectly expand consumption, especially in so far as it mobilises what would otherwise have been idle funds. Trading services of a luxury nature, run on commercial lines, would be worth developing if the proceeds were used to relieve the burden of local rates. But both loans and trading services are dependent for their birth on the revenue obtainable from rates or from the fourth main source of local revenue — State grants.

(4) *State Grants.*—The existing Government grants to the Local Authorities are of two main kinds. On the one hand there are the grants made for a few specific and especially important services, such as Police, Probation, Maternity and Cancer Services, Education, Housing, and Air Raid Precautions. On the other hand there is the General Exchequer or Block Grant which is the Central Government's contribution to Local Government services as a whole.<sup>1</sup>

With the exception of the main part of the Education Grant, which is distributed according to an appropriate formula, and of the Housing Grants, which take the form of subsidies per house per annum, most of the specific grants are made on the basis of a percentage of actual expenditure. Expenditure on Air Raid Precautions, for example, is met by the Government to the extent of 70 per cent. up to the amount which involves a rate of four-fifths of a penny in the pound and 85 per cent. of expenditure in excess of that amount. Certain lines of A.R.P. expenditure are even more heavily subsidised when occasion demands.

The existing Block grants to the Local Authorities consist of (a) a permanently fixed sum equal to the loss in rates and in grants suffered under the De-Rating Acts and the Local Government Act of 1929, and (b) an additional sum varying quinquennially with each area's weighted population. The main features to be taken into account in arriving at this population figure are rateable value, number of children under five years of age, percentage of the population unemployed, and population per mile of public road. Thus the grant to any particular area is intended to vary with the social and economic conditions in the district. But since social conditions do not change with the same rapidity as economic conditions, the grant is fixed for a five-year

<sup>1</sup> In the year 1933-40 the Government Grants received by Glasgow Corporation for specific services amounted to £4381,971, of which £1,832,196 went to Air Raid Precautions. The Block grant for the same year was £1,402,424.

period, at the end of which time it is revised on the basis of the area's newly weighted population.

A system of flexible State grants extended in full proportion to the responsibilities which the Central Government decides to impose on the Local Authorities is the obvious solution to the problem raised by the inadequacy and inelasticity of local revenue. It was the solution found when the national emergency necessitated heavy local expenditure on A.R.P. But such a system raises new problems. Within the limits imposed by their severely restricted income, the Local Authorities exercise a considerable degree of freedom in regard to the actual details of their expenditure, a freedom which must normally be restricted as their revenue becomes greater and more flexible. Percentage grants, for example, are given largely on the basis of approved expenditure, and the control of the central Departments is more stringent and more real than in the case of the General grants. The problem of allowing full rein to local experience and initiative without losing all vestiges of coherent national development arises in its most acute form if the income of the many local units is to be expanded heavily through a system of huge and variable State grants.

Part of the solution would be for the central planning Authority itself to outline a broad plan for the expansion of consumers' incomes, and, after stipulating the general role of the Local Authorities, to provide them with the necessary funds. A concerted raising of the Minimum Standard of Living, for instance, will prove imperative on at least two predictable occasions after the war. This will occur immediately after the Armistice and at the end of the replacement boom. When the Central Authority has decided when and by how much the standard should be raised on each occasion, it will determine its own contribution to be given in the form of an addition to the Block grant. It will then need the co-operation of Local Authorities to effect the precise degree of expansion necessary in each locality. The nature of this co-operation and the local assistance to be given in other forms of national expenditure will become evident when the various measures are examined in detail.

### *Expanding Consuming Power*

As has already been noted under a discussion of the available sources of revenue, the expansion of consuming power is as much a

problem of revenue policy as of expenditure policy. But assuming that the money which the Local Authority is called upon to distribute has been collected in ways which afford the minimum degree of hindrance to consumption, the problem becomes largely one of finding suitable lines of expenditure.

A Local Authority can expand consuming power either indirectly, through outlay on public works and housing, or directly, through expenditure in raising consumers' incomes. Of the direct methods, which will be examined first, the chief is the raising of all incomes dependent on the Local Authority, in accordance with a nationally agreed rise in the Minimum Standard.

In practice the concept of a national Minimum Standard of Living would be found to include a large number of different standards, catering for different types of need. Possibly the best procedure for drawing up a comprehensive scale of standards would be to begin by establishing a *basic minimum* for individuals *living in conditions in which their need is least*. To this basic figure might then be added allowances for all conditions which increase the individual's need : for instance, heavy work, sickness, accident, living away from home, or high rent.

All *variable* allowances, such as the amount to be allowed for rent and rates, might suitably be excluded from the basic minimum. In other words, this minimum would not in general be the actual sum paid, but merely the first item in the calculation, to which other items would be added in order to arrive at the sum due to any individual.

In final definition, therefore, the "basic minimum" here implies that allowance, exclusive of all variable allowances, which must be paid to individuals who are not working but are in good health and live as members of a family or household. The term "good health" implies a state in which there is no need of special sustenance, medicines or appliances, treatment or travel to a place of recuperation.

For the purpose of establishing a scale of minimum standards of living a tentative classification of individuals is suggested in the accompanying table. The last column in the table shows the administrative machinery proposed for effecting the necessary payments to applicants. It contains references to a Standard of Living Panel — a body with special functions which must be explained.

Clearly it is necessary to entrust some comprehensive central

# NATIONAL AND LOCAL GOVERNMENTS CLASSIFICATION OF INDIVIDUALS FOR THE PURPOSE OF MINIMUM STANDARDS OF LIVING<sup>1</sup>

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Classification	Name	Present Source of Income or Subsistence	Proposed Source of Income or Subsistence
<p>A. "Basic Minimum"</p> <p>0-3 yrs. (only child). 0-3 yrs. (living in household with one other child). 0-3 yrs. (living in household with two other children). 0-3 yrs. (living in household with three other children). 4-10 yrs. (Same quadruple divisions as above). 11-17 yrs. (single). 16-18 yrs. (single). 19-19 yrs. (single). 60 and over (single).</p> <p>Married couple living together (all ages to 59). Married couple living together (one being 60 or over). Married couple living together (both 60 or over).</p> <p>B. ADDITIONS FOR CONDITIONS GIVING RISE TO GREATER NEED.</p> <p>1. Rent and rates.</p>	<p>Definition as in text.</p> <p>Proper age groups would need to be decided. "Child" includes all who have not reached 16.</p> <p>From this point onwards there might be justification for distinguishing between male and female, though this is not self-evident. A joint assessment of needs would be made for this class. Husband or wife living alone would be assessed as a single individual.</p>	<p>Apart from the parents' wages, the available sources are the children's allowances in unemployment insurance and public assistance, school meals, free milk supplies, orphans' pensions and educational scholarships.</p> <p>Unemployment insurance, public assistance and other social services are the main source for people under 60 when not in work, old-age pensions being available later.</p>	<p>1. Universal children's allowances, granted through the Standard of Living Panels. 2. Extension of school meals and health food supply. 3. Holiday camps. 4. Sports grants and clothes. The last three would be developed through Local Authorities and their schools. The Assistance Board and Public Assistance allowances would be brought under a single system controlled by the Standard of Living Panels. Old-age pensions would be included.</p>
<p>2. Rent and rates.</p> <p>Possibly the whole amount of rent and rates, up to certain maxima varying according to size of family and locality, should be allowed to individuals who have become temporarily incapable of earning as a result of accident,</p>	<p>Certain allowances for high rent are made in the rates paid by Public Assistance and Assistance Board Authorities.</p>	<p>(N.B.—In the cases mentioned below, the Panels will effect the payment whenever they make the assessment.)</p> <p>Standard of Living Panels would assess each applicant's title to rent and rate additions, being guided by regulations affecting their town or district.</p>	

<sup>1</sup> We are indebted to Mr. J. Cannon for assistance in drawing up this table.

Classification	Notes	Present Source of Income or Sustenance	Proposed Source of Income or Sustenance
1. Rent and rates — <i>continued.</i>	illness or unemployment. In this event, the amount allowed would be paid direct to the landlord and Local Authority. In other cases, standard minimum additions would be fixed, varying according to size of family and the district.		
2. Indispensable travel.	Additions to the "basic minimum" may be necessary where travel to work is expensive.		Amounts would be assessed by Standard of Living Panels, subject to guiding principles.
3. Addition for previous standard of living.	Commitments in respect of the purchase of a house, or other obligations accepted on the basis of a formerly high standard of living, might be considered. Only those payments which were irreducible would be recognised for this purpose.		The Standard of Living Panels would constantly review any additions made under this head.
4. Addition for lodging away from home.	A question to be decided would be the age at which a lodging addition should be brought into the calculation. The amount allowed should not be an inducement to leave home. It would not be paid where the claimant was not paying full lodging costs.		The addition would be assessed by the Panels according to approved figures for each area, adjusted according to age.
5. Addition for sickness (the individual not being in hospital).	This would cover medical and dental cases, and cases of nervous breakdown. The addition would be for treatment, light food and the extra labour of nursing.	Health insurance payments, free medicine and treatment.	Free medicine and treatment. Insurance benefits would be included in the total Standard of Living payment made by the Panel.



## NATIONAL AND LOCAL GOVERNMENTS

Classification	Notes	Present Source of Income or Subsidies	Proposed Source of Income or Subsidies
6. Addition for accident (the individual not being in hospital).		Workmen's compensation.	Free treatment and appliances. Compensation would be included in the total Standard of Living payment made by the Panel.
7. Widower's addition for children.			The amount would be assessed by Panels subject to regulations.
8. Woman's addition for size of family.			Standard of Living Panels.
9. Addition for light full-time employment or training—to yield the Minimum Wage.	An addition might be allowed to a widower left with young children. Physical need increases with the size of the household, and with the degree of infirmity of the members. If an addition for light full-time employment be brought into the calculation, and added to the "basic minimum" and the standard addition for rent and rates for the given district, the total will show the minimum wage payable in the district.	Industry, and National and Local Governments, as controlled by wage agreements, Trade Boards and regulations.	Industry, and National and Local Governments, subject to a minimum wage for the district, for different ages and classes of people.
10. Addition for heavy employment or training.	This, with other items, will yield the minimum wage payable for certain specified classes of heavy labour, all types of work not thus specified being regarded as "light employment" or "training".	Industry and National and Local Governments.	Industry and National and Local Governments, subject to minimum wages for heavy work, determined for each relevant trade and district.
11. Addition for business expenses.	Where an individual cannot compete successfully for certain types of employment or trade without maintaining special standards, the minimum wage or salary for the employment concerned should take this factor into account.	Industry and National and Local Governments.	Industry and National and Local Governments, subject to regulations governing wages and salaries of clerical, technical, commercial and other staff.

Classification	Notes	Present Source of Income or Sustenance	Proposed Source of Income or Sustenance
<b>C. INSTITUTIONAL STANDARDS</b>			
1. Hospital Standard.	A minimum standard of outlay for patients of different categories should be laid down, indicating average diet, expenditure on service, laundry, literature and personal and general supplies.	Local Authorities and Private Hospitals.	Local Authorities subsidised by the State, and Private Hospitals acting under regulations.
2. Mental Hospital Standard.	A minimum standard of outlay for patients of different categories should be laid down, indicating average diet, expenditure on service, laundry, literature and personal and general supplies.	Local Authorities and Private Hospitals.	Local Authorities subsidised by the State, and Private Hospitals acting under regulations.
3. Poor Law Institutions Standard.	A minimum standard, uniform for the whole country, is needed.	Local Authorities.	Local Authorities acting under regulations.
4. Prison Standard.	A minimum standard, uniform for the whole country, is needed.	Prison Authorities.	Prison Authorities acting under regulations.
5. Ship Crew Standard.	This is partly determined by law, but should be made comprehensive.	Shipping Company.	Shipping Company.
6. Boarding Schools Standard, Orphanages, etc.	Standards of food, accommodation, sanitation, heating and light should be made comprehensive.	Relevant Boards and Councils.	Relevant Boards and Councils.
<b>D. SOCIAL SERVICES STANDARD</b>	An individual's standard includes many necessities such as sanitation, adequate house-room, water supply, lighting, open spaces, playing fields and transport facilities. Minima should be defined where possible as the aim of local and national policy.	Local and National Governments co-operating.	Local and National Governments co-operating.

organisation with the work of co-ordinating all the services<sup>1</sup> which support an individual's standard of living. These services include unemployment insurance under the Ministry of Labour, health insurance under the Ministry of Health and approved societies, workmen's compensation, pensions under the Ministry of Pensions, and public assistance, public utility services, school meals and clinical supplies provided by the Local Government. Trade Boards are involved in the regulation of wages. The introduction of family allowances will add a further organisation. It is proposed therefore that a Standard of Living Division should be formed within the Ministry of Health to keep under review the entire diverse machinery for maintaining the standard of living, to inform the Government whenever the machinery fails at any point, and, in the event of its failure, to make such payments to individuals as will prevent their incomes from falling below the recognised standard. The agency through which the Division would make the payments in each area would be the Standard of Living Panel.

Economy in administration might be gained by making this Standard of Living Division responsible for the whole family endowment system and payments. The same administration might suitably absorb, further, the following functions: the payment of old-age pensions; all Public Assistance outdoor allowances; Assistance Board payments; sickness benefit, since the amounts paid by approved societies usually need to be supplemented, and the member now has to apply both to his Society and to the Public Assistance Authority; and workmen's compensation, the Division being responsible for recovering from the employer the amount for which he is liable.

Since each Panel would need to examine cases under the care of the Local Government, the Ministry of Labour and the Ministry of

<sup>1</sup> The Beveridge plan — published after this chapter had been sent to the printers — would establish a new Ministry of Social Security in place of the machinery suggested here. The plan has our emphatic support as a masterly method of simplifying social insurance and filling every gap in the provision made. Its aim, however, is distinct from that of the scheme in these pages. The Beveridge plan is concerned solely with the elimination of want. The plan here proposed is concerned with the elimination of unemployment. It provides machinery for raising the minimum standard instantaneously whenever this is necessary as a means of raising consuming power.

Sir William launches his plan as primarily an insurance scheme; hence it involves transfers between consumers rather than an increase in consumers' incomes. The financial change required to convert it into an instrument of employment-planning could be effected by a short Act making the Treasury contribution swiftly expandable and providing for an increase in benefits or a reduction in personal contributions.

Pensions, it should comprise representatives from these bodies, with a strong emphasis upon local representation. The Ministry of Health would appoint the Chairman and Secretary of the Panel, but they would depend largely on the nominees of the Local Authority for an understanding of conditions peculiar to the district.

### *The Local Authority's Part*

In the plan summarised in the table the functions of the Local Council are shown to be diminished in one respect. The cost and administration of outdoor relief, formerly under the Welfare or Public Assistance Department, will pass to the Ministry of Health and its Standard of Living Panels. In other matters, however, local responsibility is extended, though the cost of development will be increasingly borne by the national Exchequer. The establishment of a satisfactory minimum standard for children will become progressively the obligation of Local Councils, acting through the school system, with medical inspection, clinics and welfare centres as aids. The provision of food, clothes, sports and holiday facilities can be made through schools and clubs wherever the need is greatest.

As regards the minimum wage to be paid to adults, the Local Authority has a direct responsibility for the wages paid to its own employees. Categories affected by the scheme will range from the employees of the public services—e.g. clerks, typists, bus-drivers, builders, road-menders and gardeners—to the small army of charwomen which scours the municipal buildings. Unless the new standard is very high compared with standards now prevailing, it is not to be expected that the wages, pensions and allowances of the Council's employees will show any considerable increase, for their standard is already a relatively high one. Nevertheless, such increases as are made will be a valuable form of expenditure from the point of view of an authority which is anxious to expand consuming power. This guaranteed standard of living will not only put extra purchasing power at the command of those most likely to use it at once, but will diminish the need for saving and thus still further increase the effective demand for consumption goods.

Old-age pensioners depend for an important part of their standard on suitable house accommodation. Thus there is considerable scope for expenditure by the Local Council in providing small labour-saving

dwelling for those retired workers who are still able to look after themselves, and in providing comfortable and attractive Homes for others.

A further obligation falls on the Local Authority in respect of the establishment of "institutional standards". The conditions of living in hospitals, mental homes, poor law institutions and prisons are matters of public responsibility in each county or borough. Likewise, the "social services standard" is almost exclusively the concern of the Local Council, though it may call for much financial support from the Central Government.

A very large share of the task of maintaining the minimum standard must therefore be shouldered by the Local Authority. From the point of view of administration, it is better equipped than any other body for dealing with local needs. From the financial point of view, if the raising of the minimum standard is intended to enhance consuming power, it is essential that the funds be supplied by the national Exchequer. In the division of labour between Local and Central Governments, the local body provides the services, the contacts and the specialised knowledge, while the State largely supplies the finance.

### *Reduction of Rates*

Altogether apart from its share in the scientific raising of the minimum standard, a Local Authority can at any time be used as agent for an instantaneous increase in consuming power. For instance, if subsidised, it can reduce rates. As has been seen already, rates are a severe drag on consumption, for they tax the proportion of income that is spent on one of the most important and certainly the most expensive of all necessities. The exemption on the grounds of poverty affects only the very poorest members of the community. Hence a reduction in rates would bring most relief to large working-class families whose tendency to consume rather than save must be almost infinitely great. Similarly any attempt to reduce the regression by increasing the number of exemptions according to income would bring a proportionate increase of consuming power to those classes which are most likely to use it immediately. Nor are the lower income groups alone in being affected by a reduction in rates. Other things remaining equal, it is to be expected that the middle classes would spend more money on their housing accommodation if their liability to be taxed on that proportion of their income were not so heavy. The

resulting stimulus to the building and furnishing trades would initiate a still further expansion in consumption through the incomes of their workers.

It is evident, then, that the Local Authorities have a wide and varied range of experience in the administration of measures utilisable for the expansion of consuming power. None of the measures already suggested is entirely without precedent, and the typical Local Authority, the County or Burgh Council, would find little that was new in them other than the necessity of visualising clearly the economic aspect of the social services. A central planning Authority could use this excellent localised experience and the traditions of personal contact which are so vital a feature of local self-government, not only to organise the special local expansions of consuming power which may be needed to combat heavy concentrations of depression, but also to administer the complex details of the national drive to raise and maintain consumption in the country as a whole.

### *Fixing Prices*

In a private-enterprise economy, a rise in consuming power tends to be counteracted by a corresponding rise in prices. A planning Authority which aims at an effective expansion of consuming power must take steps to ensure that prices will not rise above a certain level. This is primarily a national problem. In a local economy, free from the politico-economic boundaries which hold up international trade, there are only transport costs and the frictions set up by inertia to prevent the forces of competition from establishing a single price for each commodity appearing on the national market. Hence, any attempt to fix a local as distinct from the national price of a commodity will in general be rapidly cancelled out by divergent or convergent movements of demand as far as that locality is concerned.

The prices over which the Local Authorities have direct or indirect control are amongst those which can be most effectively localised — transport, lighting, power, etc. Such prices as these bulk large in industrial as well as private expenditure and go far towards determining costs of production, and so prices of goods produced in the area. Less directly, the Local Authority influences prices in the building industry through its own demand for housing and its control of the level of rates.

A few examples will suffice to illustrate the extent of the potential

control which is in practice at the disposal of a Local Authority. Glasgow Corporation has a direct control over the price of local passenger transport because it controls all the buses, tramways and underground traffic operating within the city. Indeed, its buses and trams do not stop at the city boundaries, so that its direct influence on the price of transport extends outside the city, while its indirect influence is considerable over the whole of the industrial area of which Glasgow is the centre.

Again, the city's Housing Department was dealing directly with 78,694 houses at the end of August 1940 and was making grants to private builders in respect of a further 89,113 houses. In addition there were 2498 dwelling-houses and 568 shops and business premises belonging to the Department under the City Improvements Acts of 1866 and 1897. The Housing and Parks Departments together own land within the city extending over an area in the region of 13,000 acres out of a total city area of less than 40,000 acres. Hence the Corporation's price for land and buildings must exert an appreciable influence on the competitive price. Other Corporation Departments enable a considerable degree of control to be exerted also over the prices of heating, lighting and power, and of building materials of all kinds.

In addition, a wide range of non-essential or less essential services is provided by the Local Authority. Glasgow Corporation provides facilities including, in many cases, full equipment for a variety of recreations. Bowling, tennis, golf, football, hockey, cricket, running, cycling, skating, swimming and boating all form part of its commercial activities conducted in competition with private undertakings. Over one and a half million players used the bowling, tennis and golf facilities during 1939-40, while the Corporation provided in addition 78 football pitches, 5 cricket pitches, 11 hockey pitches, and boating lochs which covered 58 acres. The influence of the Local Authority over the prices prevailing in its area is therefore considerable, whether the prices are those of necessities or of luxuries.

#### *Eliminating Unemployment : Special Schemes*

The special schemes which come directly under the control of the Local Authority are those which relate to public works — or public utilities — and to housing. They represent undoubtedly a tremendous influence for local planning.

The purposes to be achieved through such schemes, in conformity with the national plan, are : the accumulation of public contracts to be held in reserve for absorbing workers from capital-equipment industries immediately after the replacement boom ; the planning of a housing campaign which will assist in the more permanent absorption of such workers ; and the stabilising, after the third year of peace, of the aggregate investment programmes of public utility companies, so that they may offer a continuously stable market to capital-equipment industries.

As regards the first of these, the preparation of " reserve contracts ", it will be essential to remove all restrictions on the powers of Local Authorities to undertake new social and trading services. An extension of the 1936 Public Health Act to Scotland is one example of the type of legal provision that will be necessary. Under this Act English Local Authorities are enabled to provide general hospital accommodation for the sick, dispensaries, out-patients' departments and maternity homes, laboratories for the diagnosis and treatment of disease, and ambulances. A Local Authority which is unable to exercise freely such powers as these finds the principal avenues of constructive social expenditure closed to it.

Once legal restrictions of this kind are removed, however, there will be abundant opportunities for new and vital capital expenditure on the part of the Local Authorities. In Glasgow, for example, there exists a real need for new fire stations, power stations, sewage works, roads, bridges, schools, libraries and museums, a need which will be doubled at least when the essential post-war building programme comes into operation. These are schemes which will involve vast sums of money. A programme of new sewage works alone, which received the Royal Assent in 1935, envisaged capital expenditure amounting to £2,250,000. Plans can therefore be drawn up in advance for a wide variety of schemes which can be held in suspense till the end of the replacement boom and then put into immediate operation.

One obstacle to the suspension of schemes till emergency arises is the unwillingness of contractors to undertake them without some guarantee that they will not suffer from future changes in conditions of production. What is wanted is a form of contract which will provide for the expenses involved in undertaking work which may be held in abeyance for twelve or eighteen months or more. This special form of contract must provide for adjustments in contract prices to cover the



complex expenses of delay and any changes in costs of labour or material during the period before work is started.

As regards housing, it is logically unreasonable if not impossible to remove the major work of town planning and physical rebuilding from the Local Authority. A Town Council which is not allowed to plan its own town is a nonentity. Each relevant Council after the war will unavoidably be responsible for its own building programme, subject only to certain guiding principles laid down in the master plan — principles which can be made effective through State subsidies for housing granted subject to specified conditions.

The concentration of power in the hands of the Local Council lays on it a corresponding obligation to plan its building programme in such a way as to absorb the unemployed at the time of greatest need. The peak of the programme should come in the third or fourth year after the war. To this end the most important factor to control is the supply of labour. If the wartime system of rationing labour is extended into the peace, as seems desirable, each local body will be dependent on local labour for all construction. The size of the programme in each area will depend upon co-operation between the Local Council, the local building Trade Unions and the Ministry of Labour in providing training facilities and making possible entry into the trade. It is of the utmost importance that every local planning Authority should perceive that the onus falls on itself for securing an adequate labour supply.

For all practical purposes, the governing factors affecting the size of a public housing campaign are thus the supply of skilled workers and available finance. Whereas the Local Authority will be mainly responsible for the first, the second will depend largely on support offered by the central Exchequer. Assuming that there is adequate provision in both spheres, an enormous expansion can be expected in housing after the war, so great is the immediate need for house-room and the lasting need for more healthy and beautiful structures. Every permanent increase in the size of the building industry implies the permanent absorption of workers from overcrowded capital-equipment trades, and is a direct contribution to the regional plan.

There is lastly the problem of securing an even flow of investment by Local Authorities and public utilities through a long-period con-

certed regional programme. It is here that the Regional Planning Commissioner may play a substantial part. As noted, he would exercise powers similar to those possessed by the Special Areas Commissioners. Hence the work of these Commissioners provides an instructive precedent. In the 1938 Report of the Commissioner in Scotland it was stated, for example, that five main channels of expenditure were used to absorb the funds of which he was in control : (1) Local Authorities were assisted by grant to modernise their public and health services. (2) An attack was made on the unsightliness and drabness of the depressed areas by the provision of playing fields and parks. (3) An effort was made to maintain the morale and employability of the industrial population by the provision of social service, welfare, training and land schemes. (4) The Local Authorities were enabled to make greater strides in housing development by additional grants. (5) Finally, an inducement was offered to the establishment of new industrial enterprise "by the provision of factories and factory sites, both on trading estates and elsewhere ; by grants in the form of contributions towards overhead charges such as rent, rates and taxes to tide over the difficult years which the industrialist transferring to a new area has to face ; and by making loan capital available. . . ."

It is clear that a Commissioner with such financial powers has considerable means of inducing public and semi-public bodies to adopt programmes of development which in the aggregate will provide a smooth curve of investment. His initial aim will be to produce a large bulge in the curve immediately after the replacement boom. In subsequent years, however, the principles on which the national plan is based will call for the utmost steadiness in the stream of investment by Local Authorities and kindred bodies.

In total the schemes which have been visualised above as forming part of the Local Authority's responsibility under a national plan are vast and far-reaching. They are beyond the province of the local body acting alone, if only because they demand financial resources far in excess of its present potential. Nevertheless, every Local Authority, when adequately subsidised by the national Government and assisted by its agent in the person of a Regional Commissioner with command over funds, will form a most suitable local administrative point for a national plan. In particular, it is capable of dealing effectively with such local variations as may be necessary to adapt national schemes to

local needs. Its function will therefore be twofold. As a cog in the wheel of the national plan it will use its machinery for the administration of the social services and for the execution of public works in order to achieve centrally inspired objects. As the hub of the local variation to the national plan it will devise and execute such schemes as are specially suited to district needs.



Some of the industries in this compact belt have early origins. During the Middle Ages the Clyde area appears to have had a certain tradition as a centre of ecclesiastical commerce and of export and import which later prompted the development of local shipping and shipbuilding. Coal was being worked in 1210-19, and the Abbey of Paisley had coalmining rights in 1294. There are records of shipbuilding on the Clyde at the beginning of the sixteenth century. Workshops for sugar-boiling and soap-making — precursors of the modern sugar-refining and chemical industries — were established as early as 1667. These first developments were not, however, of great significance compared with the immense expansion of trade which accompanied the Industrial Revolution in the eighteenth and nineteenth centuries.

Trade with American colonies marked the beginning of the new phase. After 1707 innumerable exports such as linen, cambrics, carpets, ropes, brushes, utensils, saddlery and jewellery were sent overseas in exchange, especially, for tobacco; and for some fifty years Glasgow gained renown for the great variety of its exports and the magnificence of its "tobacco lords".

Much more substantial growth began, however, with the inventions and discoveries of Watt, whose experiments in Glasgow University from 1764 onwards helped to transform the whole structure of industry and indeed the face of the world. The introduction of the steam-engine and of machine power in ships, cotton mills and factories led to a succession of rapid advances in the industrial regions of the Clyde. Progress from that time to this has been by a series of waves. Each wave has brought with it not only a rise in the standard of living for the people of Glasgow but also a serious risk of subsidence; and the fortunes of this area have depended constantly on the manner in which the risk has been faced.

Most of the waves have taken the form of "export". (It will be convenient throughout this chapter to use the term to imply the sale of produce outside the zone in which it is made; thus, goods sent from the Clyde to other parts of Great Britain are styled "exports".) First came the surge of overseas trade, just mentioned, to the American colonists. The War of Independence seriously undermined this traffic. Thereafter the Cotton industry sprang into prominence, and was the main economic strength of South West Scotland during the nineteenth century. In the beginning the Scottish trade was even

greater than that of Lancashire, 2275 looms being installed in factories near Glasgow in 1817 as compared with 2000 in Lancashire.

In the last quarter of the century, and especially at the beginning of the twentieth, Shipbuilding became the chief source of export power. The World War of 1914-18 gave great impetus to Shipbuilding and to its ancillary, Engineering. And whereas Shipbuilding fell later to about half its former strength, Engineering progressed to the point at which in 1938 it had become Glasgow's foremost medium of employment and a considerable fount of overseas trade.

The test of ability among business men of the Clyde has always been whether they could contrive some new foreign trade whenever the old has failed. Wars have sometimes destroyed their markets. But again fresh openings have been found. As will be seen, the future of this district depends largely on the capacity to repeat the historical process. There are alternatives, it is true, but they do not promise such good results.

Precisely why other remedies are less satisfactory than export may be shown by considering the same type of problem against a simpler background. Psychologically, the difficulties presented by the decline of the crofter communities in Northern Scotland are perhaps unique. Yet their economic problem, in its essence, resembles that of almost every exporting centre in Great Britain. Comparison is in fact possible with the situation in certain entire nations — Japan, and to a less extent Italy, for instance — which have a permanent hunger for foreign markets. Thus a description of the economic difficulties of the crofters, who still find a precarious living in the Highlands, the Hebrides and the Isles of the North, will throw into relief various central issues facing the more highly developed industrial areas.<sup>1</sup>

The misfortunes of these small farming communities are said to be due largely to their having lost the self-sufficiency and the great versatility of craftsmanship for which they were once famed. Originally each family, as the economic unit, practised an exceptionally wide range of crafts, including every branch of agriculture, fishing, weaving, dyeing, shoemaking, milling, carpentry and building. Although the croft itself may have been only five or ten acres, the living won from it satisfied most of the family's needs. "Imports" were few: tropical

<sup>1</sup> An acknowledgment is due to Mr. Adam Collier for assistance in this study of the Highlands.

and sub-tropical products, household requirements, implements, possibly education. In order to import, however, the family had to find some form of minor export. The simplest and most usual was part-time labour. Certain members of the family, men or women, secured occasional work at sea, in fishing ports or on the estates of the wealthy.

So long as such a community is content to remain static, seeking no rise in its standards, it will be untroubled by any economic problem provided that some slight foreign trade is assured to it. If, however, it demands higher standards, efficiency must be increased at some point. Greater efficiency calls for specialisation. The number of crafts must be lessened in order that there may be concentration on those which will yield marketable exports. Thereafter the standard of living depends, insecurely, on the continued demand for these exports.

For about two hundred years fresh openings constantly appeared for the crofters' products and there has been a steady sequence of exports, beginning with cattle, hides, tallow, stockings and lesser wares fashioned by hand, then passing on to kelp and its various by-products, sheep and, during the last century, herring. More recently the labour-export market went through a phase of expansion, due partly to the development of Highland estates and partly to capital investment in ports and railways. But during the twenty years before the present war almost every export failed. This was the result in some cases of special conditions such as the changing character of demand. For instance, the demand for smaller joints meant that beasts were killed earlier and the slow-maturing type usual in the Highlands and Islands could not maintain its place. Again, loss of export markets for wool had an adverse effect on sheep prices. Certain general factors were also deepening the depression. Less money was being spent by the wealthy. Capital development, though by no means neglected, was never on a scale large and continuous enough to form a reliable source of employment. And the craftsmanship of the crofter was progressively failing to meet the competition of industrial and land machinery. According to the report of the Scottish Economic Committee, 34·5 per cent. of the insured population of the Western Highlands were unemployed in 1936. This high proportion should no doubt be interpreted with due reserve in view of the relatively small number of people insured, but it gains melancholy support from other evidences of desolation.

There remain three possible ways of solution applicable after the war, when the problem will recur in acute form : (1) the discovery of still further exports, despite all difficulties ; (2) re-education in the old crafts, with a return to the old self-sufficiency and relatively low standards ; (3) depopulation. Subsidy from outside is necessary till one of these solutions is found.

The crofters' problem has for the most part been met through depopulation. That is the inevitable fate of any community, even the most advanced, if it fails to travel along one of the other two avenues. The solution most likely to yield an improved standard of living is that of export, since it permits greater specialisation than a return to many crafts and self-sufficiency. Thus the desirable post-war programme, while containing elements of both policies, would lay special emphasis on the deliberate fostering of markets for the crofters by the Planning Authority.<sup>1</sup>

The same three choices will face the region of the Clyde after the war. This industrial zone has many embarrassments peculiar to itself — the complete exhaustion of its iron ore deposits ; the diminishing yield of its coal seams ; and excessive dependence on certain industries which fluctuate widely and spread contagion to the rest — yet the stark alternatives before it are the same. To escape poverty such as may drive away large numbers of the people, the leaders of enterprise in this area have but two ways open to them : either to construct a self-sufficient economy, with relatively low standards, or to resume the struggle for external markets. Export has been the traditional way. As has been seen, successive tides of export have brought increase to South West Scotland and have given its workmen both the habit and the aptitude for serving foreigners. Colonial supplies, tobacco, cotton goods and textiles of high quality, ships and engineering exports have figured prominently at different times. But of these, engineering alone has shown resilience in the recent depression. In the aggregate, the pre-war volume of external trade will be quite inadequate to maintain full activity in Scotland after the war. Some new and far-reaching planning measures will be needed.

In what follows a certain compromise is to be recommended. The national reconstruction plan envisaged here provides for *two planning*

<sup>1</sup> For the outline of such a programme, see p. 327.



*agencies* working side by side, each of which would take a share in the remedy. The first, descending from the Industrial and Economic Parliament with Regional Planning Commissioners as chief co-ordinators, would be responsible for the share of the plan launched by private industry. So long as Private Enterprise is to be maintained, this agency will be the spear-point of industrial planning. But if it does not succeed in establishing full employment, the second agency — a Government organisation under a Ministry of Labour and National Industry — will completely fill the gap.

The compromise proposed is one under which the Planning Commissioners, with private industry as their army, would undertake a campaign for export. This would be their special field ; and no other planning body would be concerned with it. Success in the campaign for foreign markets would diminish the need for expansion of a self-sufficiency basis. But the Planning Commissioners would promote both lines at once, so that if foreign sales could not be developed enough, home-consumption industries would be expanded to absorb surplus labour. Finally, in order to make sure that all workers would be re-employed, the Ministry of Labour would set up State Industries. Men engaged in them would work for one another in a virtually closed system. All State works would, however, be organised as training plants which after a certain stage might be sold to private industry.

The weight of the task before the two planning organisations will become evident from an analysis of the industrial structure of South West Scotland. It will be necessary, further, to attempt some forecast of conditions in this area three or four years after the war.

### *Industries of the Clyde*

The trade of South West Scotland depends largely on one huge "industrial pyramid". At the peak is the Shipbuilding industry. Supporting this is Marine Engineering, which in turn depends on various branches of General Engineering. These rest on the extensive local Iron and Steel industry ; and as a general foundation for all, there is the Coal industry stretching across Lanarkshire and Ayrshire.

According to the Census figures for 1930 and 1935, these industries together employ about 40 per cent. of the insured employed workers covered by the returns for West Central Scotland. Indirectly they provide a living for many more workers in consumption-goods trades.

Apart from Distribution, Transport, Building and Contracting, and the Textile, Clothing and Catering trades which themselves derive considerable strength from the pyramid described, there are no other industries which afford any substantial employment.

As regards the income earned by the above heavy industries, it is correspondingly large. Of the aggregate "net output" for West Central Scotland, the share attributed to Shipbuilding, Engineering, Iron and Steel and Coalmining was 42 per cent. in 1930 and 36 per cent. in 1935. Whenever trade declines, the income received by this group falls sharply; and while it becomes a smaller proportion of the total for the district, it drags down the total seriously with its fall.

The prosperity of the whole Clyde district thus depends primarily on the fortunes of the Big Four. In the past it has not always been a healthy dependence. The range of trade has been narrowly restricted, and the failure of the main exports has been uncompensated by the growth of others. Still more important, *all the industries mentioned are associated with the production of capital equipment*. Shipbuilding provides equipment for Shipping; the Engineering trades supply mechanical plant for the industrial system as a whole; the Iron and Steel Trades produce materials for Engineering and Shipbuilding, together with rails, tubes and castings used in capital development; and the Coalmines of South West Scotland serve these industries and largely share their fortunes.

As is well known, the demand for capital equipment fluctuates much more violently than the demand for consumption goods. Even in peacetime the rise and fall is extreme. When to the ordinary swing caused by the trade cycle there is added the effect of a war, with its special demands for both capital equipment and steel weapons, the fluctuation becomes immeasurably increased. It is this factor above all which has made the economy of South West Scotland insecure.

### *The Risk of Post-War Depression*

An estimate of the cost in terms of unemployment of any post-war failure to plan will be not much more than speculation; nevertheless there may be value in considering the possible magnitude of the threat to this area and of the tasks ahead.

(a) *Shipbuilding*.—After the last war, ship replacement reached its high point rather more than two years after the Armistice. At the end of the first quarter of 1921, 1,345,864 tons of merchant shipping were under construction in Glasgow and Greenock. By the end of the third quarter of 1923 the figure had fallen to 468,754 tons.

A similar drop of two-thirds is not improbable after the present war, unless the Government intervenes. Replacement will be rapid. Under the stimulus of war, shipbuilding capacity is being expanded in all parts of the world except in certain ports where bombs have the ascendancy. The expansion is on a scale necessary to make good an enormous wastage; and unless *both* ships *and* shipbuilding capacity are extensively destroyed as the war develops, replacement will be as swift as in 1919–21. If shipping firms insist on quality and refuse mass-produced vessels, the period of rebuilding may be lengthened; but the peak of activity will certainly be reached in less than two years and may come even within twelve months. The extent of the depression thereafter will depend primarily on what action the Government takes.

Were employment in Shipbuilding and Shiprepairing to fall by two-thirds, the number thrown out of work would be nearly 30,000 in the South West of Scotland.

(b) *Engineering*.—Engineering as a whole has suffered less than Shipbuilding during the last twenty years, but in the Glasgow area it employs a much larger staff and its depression is equally disastrous. If the former post-war experience is repeated, tens of thousands will be discharged within three years of the Armistice. In the slump of 1921–2 the proportion of insured engineers without employment in Great Britain was approximately a quarter for more than a year.

Two factors will work in opposite directions to raise or reduce this figure in the coming aftermath. On the one hand, there has been a greater extension of the Engineering industry for war purposes on this occasion, and the subsequent shrinkage will tend to be more extreme. On the other hand, there is a much larger task of capital replacement in prospect, and it may cover a longer period. Moreover, if foreign devastated areas are restored with the aid of British loans made in kind, British Engineering will greatly benefit. Such a suggestion only emphasises once more the extent to which Government action may affect prosperity.

Loss of work by a quarter of the Engineering labour engaged in South West Scotland would add more than 25,000 to the unemployment roll.

(c) *Iron and Steel*.—Pig-iron production on the Clyde has steadily fallen and now accounts for not more than 10 per cent. of the total employment capacity of the Iron and Steel industry in this zone. Steel manufacture has fared better, but its secular trend is not easily discerned owing to the abnormal inflation of demand through rearmament. The employment capacity of steel plants in the survey area fell from 19,142 employees in June 1924 to 14,025 in June 1930, and but for the war there might have been little recovery. In June 1940 the number engaged had risen to 21,715.

Unemployment in British steel and iron manufacture exceeded 40 per cent. in December 1921. The percentage is not likely to be less after this war once world-wide capital replacement is complete, unless comprehensive measures are taken for the planning of investment. In default of these, at least 10,000 workers in the Clyde branch of the trade are likely to become unemployed.

(d) *Coalmining*.—The recent history of coalmining in South West Scotland is dismal indeed. Even in the war year 1940 the number of insured workers employed was less than half the figure reached in 1924. The main cause cannot be remedied, namely, the exhaustion of many Lanarkshire mines. But this by no means implies that there is nothing to be done for the ejected workers or the remaining mines.

A forecast of the probable extent of unemployment in the south-western coalfields is scarcely aided by a comparison with former experience, for there was a protracted dearth of coal after the last war due to special causes. An optimistic estimate of the number of unemployed coalminers in the area following the third year of peace — again in the event of public inaction — might place the figure at 5000.

From the four industries alone, the aggregate number of workless after the replacement boom may thus exceed 70,000. If there be added, say, 35,000 unemployed "by contagion" and a somewhat greater number discharged for other causes, the figure rises to a level in the neighbourhood of 150,000, implying that in the survey area about 20 per cent. of the workers will be unemployed.

It was argued earlier that so huge a local problem could not be

faced effectively without a regional plan. But it was not implied that a regional plan alone would serve. The function of a specialised local programme is to absorb the unemployed remaining after the national plan has been driven to its furthest limit. In preparation for such a programme the first stage is to decide how far the intensity of the local depression may be diminished by national measures.

### *The Effect of the National Plan*

The spread of unemployment from capital-equipment industries to consumption-goods industries can be prevented if the consumption of the newly unemployed is well sustained and if that of other consumers is raised. Schemes to this end, it will be recalled, comprise not only the measures described in the last chapter for improving the standard of living, but also the repayment of war credits, the reduction of rates through Exchequer grants, and social, educational, travel and welfare schemes of many kinds. The swelling of consumers' incomes is easily accomplished if it is politically favoured; and when consumers spend more, consumption industries inevitably expand. This will be true of the consumption industries of the Clyde, which must be assumed to be steadily expanding despite the inescapable shrinkage of the steel-making and steel-using industries. The regional plan may therefore be focussed on the 70,000 employees of heavy industry who are liable to be discharged.

The regional plan will not be required to cater for the whole 70,000, but only for about half this number. The larger national industrial schemes will be designed to assist all four heavy industries in some degree. As regards Shipbuilding, the national plan proposed includes an arrangement for stabilising the combined demand for naval and passenger ships. It provides for the control of main-line cargo traffic by a public corporation which would be required to maintain a constant rate of replacement. And the regulation of investment in tramp shipping is recommended as the basis of one of several possible schemes.

If the demand for ships is stabilised, a new stability will be imparted to Marine Engineering and, in some degree, to the Iron and Steel industry of the Clyde.

General Engineering, it has been suggested, might be aided by loans to foreign countries made in terms of engineering products. And

greater security could be assured to this industry by the planning of investment in all the major capital-using groups : railways and other inland transport, mining, metal manufacture, cotton and other textiles, agriculture, building and contracting.

Coalmining would indirectly derive benefit from such schemes, and would gain still more from the increase of consumers' incomes.

The regional plan would be intended to employ workers who were not absorbed by these nation-wide measures. The number may for illustration be given as 40,000. One important part of the regional plan has already been discussed, namely, the launching of public works by the Local Councils. As noted, however, these would be stop-gap schemes designed mainly to give time for the development of long-range plans. The more permanent projects made under the Regional Plan would be organised partly by private industry through the Regional Commissioners and partly by the State Industries set up under the Ministry of Labour.

### *Private Industry*

Export, it has been said, promises the highest degree of specialisation and efficiency if strong markets can be found, and should therefore be favoured as the first aim of the planning. To this end it would be sound to establish a regional industrial conference for each industry. The "region", for private industrial planning, might suitably be the whole of Scotland.

The purpose of each regional conference would be to supplement all national plans for the industry by private local initiative. The possibilities for action have been discussed in Part III. They include co-operation for capturing markets abroad ; co-operation with allied industries in organising exhibitions at home and abroad ; joint research ; joint training of personnel ; the creation of technical consultancy services ; standardisation of materials and products ; action to secure improved credit facilities for home and foreign trade ; and financial amalgamation. In the sphere of export, in particular, there is much scope for corporate action in advertisement ; the holding of reserve stocks abroad ; the appointment of foreign agents to serve the whole industry ; research into the marketing methods of other countries ; enquiries into the special features of foreign markets

and the peculiarities of their demand ; the arrangement of contact between manufacturer and ultimate buyer ; dissemination of knowledge concerning methods of avoiding the risks of foreign trade, in particular, the risks of exchange fluctuations and default on the part of buyers ; the issue of reports on the records of foreign agents ; experiment in new designs and styles likely to appeal to foreign consumers ; price agreements affecting exports ; and co-operation with the Government and national planning organisations.

It would be the function of the Regional Planning Commissioner to promote activity along such lines. If there were success, the figure of 40,000 which has been assumed as the number of workers to be transferred to consumption-goods industries would be substantially reduced, though it would not be likely to fall below 30,000.

The absorption of the rest of the labour would call for the deliberate construction of new consumption-goods factories — in anticipation of the rise in consumers' demand — or the expansion of existing works. The task of the Regional Planning Commissioner in this connection would be to decide what new industries would thrive in the Glasgow area, and to promote their development. For instance, Glasgow should be a natural home for the Motor industry. Every aptitude required for the production and assembly of engines and machine parts has been developed through generations of experience. Transport facilities are unequalled. Raw materials are supplied by local iron and steel and engineering works covering all needs. The large northern markets are at hand. As proof of the potentialities of this area it may be added that it contains already a Rolls Royce plant, together with the Albion and the Leyland works.

Radio production might be developed in the district to employ women. The manufacture of light vehicles would be much favoured, as would watch-making and any other trade requiring mechanical precision. The scope seems virtually limitless. Within the last few years before the war, the manufactures introduced into Scottish "special areas" included Furniture and Upholstery, Cabinets and Fittings for Shops, Show Cases, Confectionery, Specialised Foods, Biscuits, Margarine, Bricks, Timber Houses, Asbestos Cement Products, Clothing, Felt, Glazed Kid Leather, Shoe Polishes and Chemicals, Cycles and Accordions. Wartime effort has added many other manufactures to this list.

Scotland has had considerable experience in organised planning for the attraction of new industry. In the sphere of industrial expansion the chief result has been the development of Trading Estates. The Hillington Estate near Renfrew Aerodrome was financed from the Special Areas Fund, money being lent to the Estates Company without interest for five years and at 4 per cent. thereafter. Factories were built for the most part in large blocks of standard units, though "nest" factories were introduced for smaller firms. By the end of September 1938, 67 tenants had been found for the 103 plants then erected. The estate was expected to provide for 15,000 workpeople when fully developed. Following the successful experiment at Hillington, the Lanarkshire Industrial Estates have been formed in the coalmining and iron and steel areas of Carfin, Chapelhall and Larkhall, their combined employment capacity being expected to rise to 3000.

These precedents give the strongest ground for optimism. So long as the funds for similar development are ample, and are available in good times as well as in bad, the task of expanding consumption-goods industries in the Clyde area will be much simplified.

### *Finance for Local Development*

Although support from the national Exchequer may be necessary to meet the initial costs of establishing new concerns, subsequent development may more suitably be on the basis of locally raised capital. An important step has been taken in Scotland through the formation of the Scottish Development Financial Trust Limited, a company which is designed, according to a report of the Scottish Economic Committee, "to assist in providing funds necessary for the development of new, or the maintenance and expansion of existing industries, which are found on examination to be worthy of support, but are so situated as to be unable to obtain financial accommodation through the normal channels".

The provision of finance is one main function of an organisation for local development. A Trust such as the above might, however, suitably extend its range of action to include the training of management and personnel for making use of the capital supplied. Regional planning organisation requires for its completion :

- (1) The founding of colleges for training business managers.



- (2) Exploration of markets.
- (3) The soliciting of aid from local organisations of buyers — merchants, brokers and retailers — in promoting custom for new firms and trades.
- (4) The formation of a consultancy service for giving advice to newly established units.

### *State Industries*<sup>1</sup>

If the foregoing programme were fully effective, only a small fringe of unemployment might remain for special treatment. The programme is not slight, comprising, as it does, extensive plans for steadily increasing consumers' incomes; national measures for assisting Engineering, Iron and Steel, Shipbuilding and other capital-equipment industries by the planning of investment; a housing campaign; special schemes for promoting "export" in each industry; and regional plans for attracting, financing and securing markets for new consumption-goods industries. Nevertheless, much of the programme depends on private initiative; and although this may be sustained by public subsidy and stimulated by permanent planning organisation, there is no finality in it. The responsibility for success still falls on the State. And a State which acknowledges the duty of providing work for every citizen must have in reserve, under its own direct control, a plan that is infallible.

Such a plan, it is suggested, should be administered by an enlarged Ministry of Labour and National Industry.<sup>2</sup> It would consist in the formation of State works capable of offering training employment to every applicant, whatever his former trade or personal condition. Preparations for the scheme would begin soon after the Armistice, but they would not need to be complete till the end of the "replacement boom" two or three years later. The actual erection of factories would take place as soon as the boom showed signs of breaking, and would itself extend the period of replacement. Each factory would be arranged to take small numbers or large, and, when equipped, would open as soon as there was any appreciable call for it.

<sup>1</sup> The basic conception underlying this scheme is derived from the subsistence production plans developed in Monmouthshire and in the Wigan district before the war.

<sup>2</sup> The training facilities established for wartime purposes by the Ministry of Labour and National Service provide a system which if expanded and developed could be made to include most of the activities proposed for the State Industries.

The Ministry possesses already the basic data necessary to show what kinds of production to undertake and what plant to install. The State factories would manufacture all those items in a workman's family budget which could be produced by people without extensive training ; and the full range of these items is already revealed in some thousands of budgets gathered by the Ministry in an enquiry undertaken before the war.

Since the State Industries are intended to form a closed system for mutual support, the boundaries of each separately administered district should include all kinds of production duly proportioned. With this in view, three areas in North and West Scotland might be associated : the Clyde shipbuilding and steel-making belt ; the coal-fields of Lanarkshire and Ayrshire ; and the Highlands and Islands. These, combined into one district, would give the Ministry's local Controller a thoroughly balanced zone. Administration by district would not preclude the exchange of goods across the district boundaries, but there would clearly be advantage in arranging each administrative zone to be largely self-sufficient.

No system in modern times can become completely closed, however, if it is to provide what are now the recognised needs of civilised life. The problem of cost, for the purchase of " imports ", inevitably arises. In particular there will be the initial expense of capital equipment, the subsequent interest, and the continuing cost of raw materials and transport.

In the scheme proposed the State will pay for the equipment, reserving the possibility of selling it later to private industry. Payment for raw materials, transport and a low interest rate will be made by the purchaser. The purchaser is, of course, a worker in the closed system ; and his wages are to be partly cash, partly notes expressed in hours of work. The cash will equal insurance benefit (which all men will get even though they refuse work in State Industries) ; and the notes will be issued according to hours worked or accounted for on a piece-rate system. The selling-price of every article will be expressed as a sum of money, covering the cost of materials, transport and interest, plus a number of hour-notes. Exceptions to this method might be made at discretion ; but any considerable departure from the rule of paying wages partly in hour-notes, and likewise expressing prices partly in hour-notes, will destroy the assurance of a market for the State goods.

For if wages are paid in money alone, they can be used wholly for buying goods other than those produced by the State Industries.

### *The Currency System*

The currency, price and wages system must be considered from the point of view of the employee, the accounts of the State Industries, and the Government.

For the employee, the system of payment and pricing will closely resemble the wartime "points" rationing scheme. In buying any article he will have to pay both money and, in the form of hour-notes, points. In terms of money all articles will be extremely cheap — the money charge being about half the private-market price. Hence the more hour-notes an employee possesses the more cheap goods he can buy, and the greater will be the real value of his income. In other words, his real wage will rise in proportion to hours worked.

His money income, being equal to unemployment benefit, will include a margin sufficient to cover rent and charges for services and goods not supplied by the State Industries.

The trading account of the State Industries should if possible be made to balance without substantial profit or loss. Gross receipts will include a money amount equal to the aggregate money price of all goods sold, and should be adequate to meet all money outgoings. This means that articles sold will need to be priced in such a way that the money charge for each article is about equal to the money cost involved in its production. If some articles are sold below money cost, the prices of other articles must be raised in compensation.

Similarly the aggregate receipts in hour-notes must balance the aggregate outlay in hour-notes. If in the production of certain goods an average of ten hour-notes is paid per unit of output, the goods must be priced at ten hour-notes per unit in addition to the money charge. Again, any deliberate reduction of the hour-note price of a particular article will be compensated by the raising of the hour-note prices of others.

If the trading account balances without profit or loss, the cost of the scheme to the State, apart from the initial capital outlay, will equal the aggregate unemployment benefit paid to the employees. The scheme will cost the State *more* than this sum if the money prices charged for the State goods fails to cover the interest charge incurred

by the State for the initial capital outlay, or if a money loss is shown in the trading account. A profit on this account — permissible perhaps if the staff of the State Industries pass the training stage and become proficient — will of course reduce the cost to the State below aggregate unemployment benefit.

### *Location of the Industries*

State Industries, it is proposed, should be equipped with up-to-date machinery in order to give training in advanced methods of production. Each plant would be of such efficient design and lay-out as to be easily marketable, and conditions of industrial hygiene, light and space would be as nearly ideal as environment would permit. As for location, the siting of factories in towns would necessarily observe town-planning arrangements, but subject to this their position would be arranged for the convenience of the unemployed applying to the local Employment Exchanges. In some areas two or even three Exchanges might be associated, sharing a common interest in the local State works. Any unemployed person applying to one of the Exchanges, if unable to find work in private industry, would be referred at once to the Labour Department of the local State works where he would be offered a choice of training employments suited to his abilities. In the Glasgow area some fifteen or twenty plants might be established, to provide employment for 30,000 workers.

In the coalfields similar composite works would be established for producing a wide variety of commonly consumed goods, and these might be allied with small-holdings for supplying vegetables, dairy produce, fruit and other products of intensive farming. Under the general scheme for the Coal industry it is proposed that (in the event of failure to nationalise the entire industry) the State should be empowered to take over any mine that would otherwise be closed. The mine would be treated as a State Industry, special machinery being introduced to complete the exhaustion of its seams, and employment being given to workers on conditions not less satisfactory than they had previously experienced. The coal extracted would be distributed to other parts of the closed system for sale at prices fixed in terms partly of money and partly of hour-notes, and the miners would be paid in these two forms of currency. State Industry supplies would be made available at the mines.

When a mine had become completely exhausted, the other State Industries in the area would be extended. As elsewhere, works would be sold whenever a private purchaser offered a fair price. Small-holdings might be taken over permanently at a rent by any ex-miners who felt able to compete in the ordinary market.

As regards the Highlands and Islands, the details of the programme would be extremely varied, but the principles are clear. The function of the State organisation would be to develop a system of barter whereby the produce of State works on the Clyde would be exchanged for the agricultural or other supplies of the crofters. Different methods might be adopted for effecting the exchange. One would be to have a clearing agency in each area for buying the crofters' output and bartering it for such State products as were assured of a market among crofters. Another method would be to establish new settlements in Highland areas where unemployment was heavy, and form them into trading estates. The State organisation would provide markets for the produce of these estates, again by barter arrangements involving the acceptance by the estates of Government produce from the Clyde. All exchanges on a basis of barter could be made of course without the use of hour-notes, and this system of currency might be excluded from the programme for the Highlands and Islands.

The ultimate aim would be to develop the trading estates into independent privately-managed businesses. But so long as the State remained in control it would distribute the crofters' output only to other parts of the closed system, and would thus avoid competition with private farming.

### *Salient Issues*

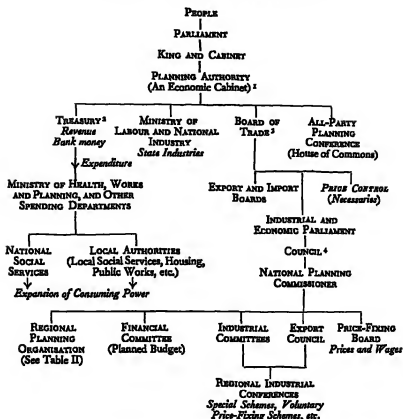
The above plan would become over-weighted and would break up in chaos if the national arrangements for expanding consumers' incomes were to fail. In such an event, every transfer of workers to State Industries would represent an uncompensated loss to the markets of private trade. In order to make the scheme wholly beneficial, consuming power will need to be enlarged by an amount equal to the wages formerly spent by the transferred workers on consumption goods.

If there is a deliberate, statistically regulated raising of consuming power, designed to increase consumption swiftly at the end of the

replacement boom, both private and State schemes for expanding light industries will be favoured. The more the private development succeeds the less will be the call for State enterprise.

From the two chapters here ended it will be seen that the national and regional plans are in reality an indivisible unit. Apart from the provision of funds through taxation and new issues of money, every principal aspect of the national plan calls for some local action. Local councils are a chief medium whereby the national Government expands consuming power, whether through social and educational services, or through grants for the relief of rates; industrial conferences and committees are the instruments for devising price-fixing schemes and supervising their application; the same agencies, municipal and industrial, are concerned with housing programmes, public works and special schemes for aiding industries or planning their investment; and although State Industries may have a nation-wide ambit, their organisation will need to be specially adapted to each region or district. It may be helpful to add, in conclusion, a sketch of the national and regional planning organisation as here conceived, with notes indicating the main function of each part of the organisation.

## I. GENERAL PLANNING ORGANISATION



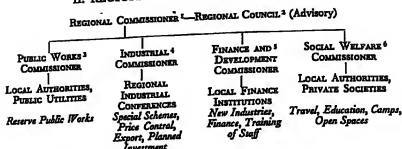
<sup>1</sup> The Economic Cabinet, as supreme executive in all matters of planning, would include the Prime Minister, Chancellor of the Exchequer, President of the Board of Trade, Minister of Labour and not more than three others. The National Planning Commissioner, who would not be a Member of Parliament, would attend all meetings as adviser.

<sup>2</sup> The Treasury holds the main responsibility, under the Planning Authority, for expanding consuming power. In this it would receive the advice of the Industrial and Economic Parliament, whose Financial Committee would be giving continuous consideration to the Planned Budget. The Treasury's sources of funds are the revenue Departments and the Banks, while its agents for raising consumers' incomes are the various spending Departments and the Local Authorities.

<sup>3</sup> The Board of Trade would be responsible for all industrial and commercial aspects of the plan, apart from the administering of State Industries. The President of the Board would submit to the House of Commons legislation arising from the proposals of the industrial committees of the Industrial and Economic Parliament.

<sup>4</sup> The Council, as Executive of the Industrial and Economic Parliament, would be the co-ordinator of all plans proposed by this body.

## II. REGIONAL PLANNING ORGANISATION



<sup>1</sup> The Regional Planning Commissioner would be appointed by the National Commissioner after consultation with local organisations. His main function would be to assist in the co-ordination of regional and national planning.

<sup>2</sup> The Regional Council might suitably be composed of eight members appointed by the Regional Commissioner in consultation with local employers' and workers' organisations in finance and industry, together with eight experts co-opted by these.

<sup>3</sup> Technically qualified Commissioners would be given the responsibility for planning in four distinct spheres. They would be the agents of the Regional Commissioner, by whom they would be appointed on advice from the relevant organisations in the district. The Public Works Commissioner would be concerned mainly with the accumulation of reserve schemes to be held in readiness for the end of the replacement boom. A further responsibility would be the co-ordination of town and country planning in the region, in accordance with the "master plan" — without prejudice to the responsibility of State Departments and Local Authorities.

<sup>4</sup> The Industrial Commissioner would have the duty of organising regional industrial conferences for each main industry, with the object of evolving schemes for promoting export, research, efficiency, price control and the planning of investment. He would be the chief intermediary between the regional conferences and the industrial committees of the Industrial and Economic Parliament.

<sup>5</sup> The Finance and Development Commissioner would be the agent for sustaining work such as the Scottish Development Council has undertaken, his tasks being to finance local development, attract new firms, promote the expansion of consumption-goods industries and, in general, foster all conditions which will improve the facilities offered by the region to industry. "Education for business", and the selection and support of individuals potentially capable of leadership in industry, would fall within his province.

<sup>6</sup> The Social Welfare Commissioner would take over and extend all development formerly included by the Commissioner for Special Areas under the heading "Social Services".



## CHAPTER XXIII

### *The "Unemployable"*

IN the first twelve months of the present war the Ministry of Labour and National Service instituted a system for examining all people whose records showed that they had been unemployed for more than four weeks. The main purpose was to discover by what means the long-unemployed might be drawn into wartime industry. Three methods of reconditioning were available: the provision of light work by employers; special instruction for engineering and other wartime work; and courses at technical training colleges.<sup>1</sup> Unemployed people who seemed unable to benefit from any of these methods, and were not likely to qualify for full-time paid occupation of any kind, have been placed in a new category. Their files are tabbed with the mark UNA, which means "unallocated". This implies no change in their financial position and they are not excluded from employment, but the new classification indicates that they are deemed incapable of passing the tests for ordinary remunerated work.

The problem presented by the unemployed in this group is rightly declared to be no longer economic, inasmuch as many of these citizens are not part of industry's labour reserve and cannot be restored to work through economic measures for expanding trade. The problem is said to be "social". This equally is true, and from the point of view of evolving sound remedies it is helpful to segregate all groups which call for specialised treatment. Nevertheless, there is profound danger in setting aside any body of people; for instead of being specially treated they may be permanently disregarded. Such a risk must be fought implacably. The sufferers are in fact unemployed. They form part of the problem of unemployment. The line between them and the fully employable is vague and shifting, for as soon as the stimulus of booming trade vanishes their ranks will grow — not because the men themselves immediately change but because the tests of fitness for work stiffen. The more serious the slump the larger will become the

<sup>1</sup> Towards the end of 1941 there was added a special scheme for the training and resettlement of disabled people.

residue of disqualified people.<sup>1</sup> If the Government is allowed to ignore them by the expedient of labelling them separately, there may be no limit to its evasion.

More positively, the Government which is to be trusted is that which has set itself the task of probing the uttermost corner of unemployment. Unemployment is not easily overcome. Before the war British Governments in a long succession were completely worsted by it. The reason was partly that they did not recognise the principle that employment depends on spending; but there was also a lack of sheer purpose. Inflexible, indomitable will is the quality needed if unemployment is to be swept away. The attitude to applaud in future is that which regards the title to work as an absolute, personal, constitutional right of every citizen, and is resolved that the right shall exist.

### *The Nature of the Problem*

Through the courtesy of the Scottish Divisional Controller of Employment and Insurance and his staff in Glasgow, an analysis has been made of the files of 157 men and women placed in the "unallocated" class. Nearly four-fifths of this number were stated to be unfit for work at least partly on account of chronic illness or other physical defect, the proportion being about the same for men and women. Rheumatism, poor eyesight, heart weakness, injury to limb, small stature and general debility were among the defects stated. Poor mentality was mentioned in about 7 per cent. of the cases.

A large contributory cause was old age. Of the 127 men's files examined, 57 showed the unallocated person to be over sixty years of age. And in 37 cases old age was specifically recorded as one of the main reasons for incapacity for work.

At one Exchange "prolonged unemployment" was given as the cause of unfitness in 17 out of 28 cases examined. This factor was not explicitly noted elsewhere, but all officials agreed that unemployability is the direct outcome of protracted worklessness. If it were possible to abolish slumps, they say, the problem of the "hard core" of unemployment would dwindle rapidly.

<sup>1</sup> On 21 April 1941, out of a total of 157,239 men and boys wholly unemployed in Great Britain, 36,911 were classified by interviewing panels as unsuitable for ordinary industrial employment. Ten months later, on 16 February 1942, the number so classified had fallen to 26,508 out of a reduced total of 99,928 wholly unemployed. Presumably employment had become available on easier terms.

Long unemployment is often associated with some accidental, aggravating cause in reducing the "unemployable" to his final state. Injury or illness may destroy a man's physical reserves, and if light nourishing food is then essential to recovery there is no hope, such food being unprocurable with the dole. Long invalidism leads to only one possible form of adjustment, the acceptance of a level of activity low enough to be maintained on subsistence pay. Once this level has begun to mean security, there is a genuine dread of departing from it. The "unemployable" is justifiably afraid that if he undertakes strenuous work and collapses under it, his plight will become desperate.

Long unemployment coupled with debt — whether due to accident or other cause — can equally produce psychological effects which lead to a resigned acceptance of unemployability. It is disheartening to face the struggle for work if the extra income is to be distrained continuously for two or three years.

Further, protracted unemployment is especially ravaging when it falls on men and women who are liable to worry. "It is the people who *mind* who age most", it is said. The long unemployed as a class tend to fail rapidly and to appear much older than their years, but the chief sufferers in this respect are those to whom it is morally intolerable to be one of industry's outcasts.

A serious aspect of the difficulty which unemployed women meet in trying to regain work is that the age at which women are considered "too old" by employers is often much earlier than the age-limit for men. At forty or even less women are rejected, despite their experience, in favour of younger workers. It is said, moreover, that women decline very rapidly under the mental stress of enforced idleness. These considerations indicate not only the degree of suffering imposed, but also the wealth of efficient capacity which is wasted. Indeed the future task of providing work for "unemployable" women will be much simplified by the high quality of the labour available, if it is reabsorbed by special schemes before it has time to deteriorate.

Another enquiry made in Glasgow with the aid of the Workers' Educational Association and the Society of Social Service<sup>1</sup> was

<sup>1</sup> In addition to the officers of these two societies, Mr. Owen Curran gave valued help in the enquiry.

designed to reveal the *initial* mishap which started the unemployable on his course. Where possible the subject's life-history was traced from this first disaster, the aim being to gain a sufficiently detailed appreciation of the causes of unemployability to realise what would be the possible remedies.

As might be expected, the enquiry revealed a great variety of interconnected causes operating in different degrees, and few of the cases examined could be said to be identical. Nevertheless, if the evidence gathered be coupled with that of the investigation published under the title *Men Without Work*,<sup>1</sup> a fairly comprehensive classification of types may be made as follows :

(1) There is first the purely surgical case, where a man is disqualified for paid work solely on grounds of defective limbs. (2) The purely medical case is similar, though the treatment required is different. (3) Certain types are physical in origin — that is, they arise initially from surgical or medical causes — but their consolidation is due to psychological developments. (4) Other psychological cases can be traced exclusively to the subject's reaction to long unemployment : depression, apathy, grievance against society, anxiety leading to nervous illness, loss of self-confidence, loss of the power to concentrate, feeling of uselessness, fear of breakdown. (5) Then there is the case of actual mental breakdown. (6) There is the quite different case of the mentally disordered. (7) And there is the fairly general case of premature ageing. (8) Finally, there are the refusers : not apparently a high proportion.

Experimental agencies have in the past shown that suitable work can be devised for most of these types. It is proposed therefore to give an account of some of the methods used by such agencies, and in conclusion to indicate a composite plan for dealing with the problem of the "unemployable" in its entirety.

### *The Surgical Case*

Man is endowed with a surplus of limbs and can maintain his mechanical efficiency with much less than the full complement. If injury is accompanied by any cause of nervous exhaustion, efficiency may be impaired for heavy or prolonged work ; but *manipulative* ability is quickly regained after the first stages of readjustment, and

<sup>1</sup> A Report made to the Pilgrim Trust, Cambridge University Press, 1938.

most men who have been maimed soon recover the capacity to perform a wide range of manual tasks.

Eloquent testimony to this is found in the work of the War Disabled Ex-Service Men's Industries and similar organisations. The output of these industries includes clothing, rugs, embroidery, tweeds, painted fabrics, woodwork and furniture, leather-work, toys, calendars and cards, metal-work in brass, copper and chromium plate, brushes and a great variety of household goods. Among the articles made by war-blinded men at St. Dunstan's are tables, baskets of all kinds, stools, trays, trolleys, fire-screens, bookcases, lampstands, pedestal cabinets, shoe-scrapers, mats and rugs. Some of this work would seem to call for greater dexterity and concentration than many of the machine-tending operations of industry.

One of the aims of the work is to heal and strengthen defective limbs. In the Report for 1940 of the Lord Roberts Memorial Workshops it is said :

As distinct from the great financial and moral benefit to the men employed in the Workshops, the physical benefit derived is very striking. Many men can now be seen at work who have actually recovered the use of their limbs and hands. Orthopaedic experts will say that this is because the right kind of exercise has been given to the injured limbs, but perhaps the improvement is more due to the employment of the mind on definite and interesting work, and the often quite unconscious use of the disabled limb to assist the sound one which carries out the main part of the work.

It can be stated without reserve that a man who retains but one finger and thumb is capable of earning a fair wage if he is given the right tools.

### *The Medical Case*

Nothing could exceed in complexity the medical and psychological problems which confront the Papworth Village Settlement for the cure of tuberculosis. To this Settlement come in a steady stream patients in every stage of development of the disease. As far as funds allow, they are taken in and the first treatment is prolonged care in the sanatorium. Treatment is in fact useless unless prolonged. A patient feels better much before he is truly better ; and his impatience to go back to ordinary work must be curbed.

A fundamental principle of the cure is that it is necessary to build

up the body's resistance. Resistance, however, depends on peace of mind as much as on living conditions; and the tubercular patient usually lacks the restful mind. To his temperamental difficulty may be added an economic background such as will destroy any possibility of calm.

He cannot, as a rule, earn while at the sanatorium; but the rent of his home must be paid, his wife and family must live, and the resultant bills have somehow to be met. His main anxiety is therefore to get back to his home and — if possible — to his job; and if he be retained at the sanatorium longer than he wishes, an anxiety neurosis may develop. When ultimately discharged he finds himself confronted with a desperate situation at home. The rent is in arrear, his credit has been pledged in all directions, his wife is in a frenzy and his children need new shoes. For him, prolonged treatment is of little avail. One week of domestic chaos such as this may well destroy a year of careful treatment.

. . . Sometimes prolonged institutional treatment produces a breakdown of moral fibre, so that the patient develops an inferiority complex. Fear and uncertainty play their part in destroying a personality and in this way the most skilled and prolonged treatment may only produce disappointing results.

These two points, both of them of the utmost importance, have been met in the Papworth scheme. As soon as a patient is fit for work, he works, even if it be for only two hours a day. Later he may be able to do four or even six hours a day, and in this he is guided by medical officers who have spent years in observing the effect of graduated work upon prognosis.

And when I say work, I mean real practical work; the kind of work that is done in the world outside. . . .<sup>1</sup>

When capable of six or seven hours per day the patient is considered ready to enter the next stage: to become a "Settler", that is, an employee of Papworth Industries resident in the village. Wages paid to "Settlers" are at Trade Union rates. The commodities produced are mainly all forms of woodwork; all forms of travelling goods, both leather and fibre; and upholstery. In addition there is a large and well-equipped printing department, a building department and certain smaller industries. The processes of production are as highly mechanised as possible since *machinery compensates disability*.

Markets for the goods produced are found by the usual commercial channels. Handicraft work is not easily saleable to ordinary markets,

<sup>1</sup> *Dental Magazine*, February 1938.

and is therefore not favoured. The primary aim throughout is to restore the disabled to a condition in which they can earn again on terms as nearly as possible resembling those which they enjoyed before disablement.

In addition to many unmarried ex-patients, 147 whole families have been rehabilitated at Papworth.

### *The Mental Patient*

Occupational therapy in mental hospitals has a history of not less than a hundred years. As early as 1841, Dr. Samuel Tuke, of the Retreat, a mental home in York, wrote :

In turning to the subject of labour in connexion with the management of the insane, it is due to the memory of the late Sir William Ellis to bear in mind that to him we are indebted for the first extensive and successful experiment to introduce labour systematically into our public asylums. He carried it out at Wakefield with a skill, vigour and kindness towards the patients which were alike creditable to his understanding and his heart. He first proved that there was less danger from putting the spade and the hoe into the hands of a large proportion of insane persons than from shutting them up together in idleness, though under the guards of straps, strait-waistcoats or chains.

He subsequently introduced the system of labour into Hanwell ; and now the same system has been carried out still more extensively in several of the asylums in Scotland.

On visiting most of these institutions in the autumn of 1838 . . . we found, at Perth, Dundee and Aberdeen, the men's wards nearly empty, so large a proportion of their inmates were in one way or other engaged in labour. . . . At Dundee, at nine in the morning, out of fifty-seven men patients of the lower class, twelve were engaged in stone-breaking, eight in gardening, thirteen in weaving, one in tailoring, two as shoe-makers, whilst a few were engaged in the preparation of tow for spinning, and several in various services of the house.

In Aberdeen Asylum, in which the labour system is extensively introduced, we were particularly pleased with the state of the lowest class of women patients — chiefly in an idiotic and demented state. All of these but one, and she was in a state of temporary active mania, were employed in picking wool or some other simple occupation. . . . Those dismal-looking objects cringing in the corners of the rooms or squatting on the ground almost lost to human form, are here not to be seen.<sup>1</sup>

<sup>1</sup> Reproduced from the Foreword by Dr. William Rees-Thomas to *The Occupational Treatment of Mental Illness*, by Dr. J. Ivison Russell, 1932.

In 1933 the Board of Control gave a strong lead to British Mental Hospitals by issuing a *Memorandum on Occupation Therapy for Mental Patients* in which the Board declared that "the activities falling under the heading of occupation therapy are so many and diverse that no difficulty should be found in bringing into the scheme all patients who are not actually infirm or seriously ill, or who, for mental reasons, are temporarily unfit to associate with the patients undergoing group or individual treatment. On the figures available, more than 80 per cent. of the patients in a mental hospital should come within the scope of the method." It is true that occupational therapy covers recreational and social activities which are unproductive of services or goods; nevertheless the term in general implies fitness for fruitful labour. It seems reasonable to suggest that any patient who is sane enough to have a conscious desire for work can be enabled to employ his hands in ways that will aid his mental recovery, and that in many cases he can be employed gainfully.

Among the hospitals which have developed occupations is the North Riding Mental Hospital, York, where the activities in peace days included the farming of a 350-acre estate, from which the institution's own meat, milk, vegetables and fruit were wholly supplied; maintenance work of engineering services and hospital buildings; the production of clothing and boots and shoes; upholstery and the manufacture and repair of bedding, and various kinds of arts and crafts. The Medical Superintendent, Dr. J. Ivison Russell, has published a manual, cited above, on the occupational treatment of mental illness, describing in careful detail the forms of work which are appropriate to different types of patient. This manual would in fact provide an ideal handbook for any officer in charge of a State works for occupying sane men who have developed fear, neurosis or other cause of inhibition.

### *The Psychological Case*

Men who are not disqualified for paid employment on medical, surgical or mental grounds may nevertheless be rejected by industry by reason of temperament, or because they have lost confidence or the power to concentrate. The remedy for such people may be through a single extensive organisation with many branches and a large staff trained in the arts of practical psychology; or it could be achieved, if there were enough voluntary organisers, through clubs of varying



types. In the survey entitled *Men Without Work* prominence is given to the Lincoln People's Service Club, which has had notable success with peculiarly difficult cases. The central idea of the club is communal service. The members work primarily, not for themselves, but for some outside social organisation. When a large enterprise is contemplated on behalf of some other body — for example, the making of playground equipment for the Rhondda or sets of tables for Dockland Settlement Day Nursery or the Peckham Nursery School — it is the rule that representatives first visit the Club. When the work is done, an elected deputation makes the presentation.

It is recognised that success has depended largely on the inspiration and keenness of the club organisers, and that the same scheme cannot be reproduced easily elsewhere. Experience in Glasgow suggests that no matter how keen and well-informed the responsible Club Committee may be, there is little assurance of success unless the club is fortunate in having an efficient and inspired leader—a somewhat rare type. The chief defect of voluntary clubs as a means of dealing with difficult cases is that there are not enough of them.

### *A State Plan*

It is necessary to define again the limits of the task which is here confronted. The plan to be proposed is one which will provide work *for all who want it*. No State can undertake to convert every citizen to the desire to work. It can, and should, offer to assist all people who need temperamental adjustment; but it cannot guarantee invariable success. The utmost that can be couched in the form of a definite undertaking is that no citizen who presents himself for work on terms which satisfy the majority of his equals shall go unemployed.

Furthermore, the guarantee to men who are rejected by private trade can be fulfilled only if private trade itself is sustained. The basic assumption in what follows is that an efficient national plan exists for the steady expansion of general trade. It is further assumed that a scheme of State Industries is in being, as described in the last chapter. The method proposed for rescuing, restoring and employing the "unemployable" is, in fact, to set up a special branch of these State Industries.

### *State (Part-Time) Industries*

Two kinds of Government works are contemplated. The State Industries proper, in the scheme proposed, will be developed on the pattern of the most modern competitive factories. Their function will be to absorb unemployed people capable of an eight-hour day, and to re-train them for some type of labour for which demand is rising. While forming a closed system and avoiding competition with private industry, they will nevertheless supply industry with new labour. For workers they constitute a stepping-stone to ordinary employment.

The second type of State works is for those who are incapable, temporarily or permanently, of a full day's work. These State (Part-Time) Industries will be staffed by instructors who either have a gift for human contact or have developed skill through the study of psychology or occupational therapy. The great majority of the "unemployable" will be taken into these part-time works, where they will be given occupation suited to their condition and abilities. In general, the aim of such works would be likewise to train every entrant for return to private industry. The best society for any man is one which is well-balanced. He should not stay in a sick community longer than is absolutely essential for restoration of health and nerve. Exceptions to this rule are old people and the permanently infirm; but even in these cases it would be sound to avoid an atmosphere of invalidism by intermingling them where possible with the relatively hale.

### *The Prevention of Unemployability*

In the scheme advocated, every hospital in Great Britain will be associated with a branch of the State (Part-Time) Industries.<sup>1</sup> Men and women who are fit to leave hospital but not yet strong enough to do a full day's work will be allowed to enter these Industries for such hours as the medical officer advises. The Hospital Almoner's Depart-

<sup>1</sup> The basis for a scheme such as the one here recommended is to be found already in the plan for the "training and resettlement of disabled persons" introduced in 1941 by the Ministry of Labour and National Service. Under this plan it is intended that Ministry officials shall visit disabled patients while they are still in hospital and discuss with them their future training. When capable of work, trainees are engaged in special instruction centres for varying periods and are paid allowances according to an approved scale. If this project were developed to provide every type of "unemployable" with not merely training but, where necessary, permanent part-time employment, it would meet the full requirements indicated in these pages.

ment will maintain contact with every case until satisfied that recovery is complete.

It will be for the State (Part-Time) Industries to attempt to place the ex-patient in a job in his former trade. If there is no opening, he will be transferred to the State Industries proper for re-training in some other occupation.

The surgical case may call for protracted treatment till the full use of limbs has been recovered. Orthopaedic experts and osteopaths would be attached to each branch of the State (Part-Time) Industries to give advice on suitable forms of remedial labour. When any ex-patient had recovered the highest degree of efficiency which seemed to be within his reach, a medical board would classify him. The classification would denote the *maximum State subsidy* which could be offered to a private firm for employing the ex-patient at full wages. With this subsidy as a means of bargaining, the State (Part-Time) Industries would attempt to find the man a job. In the event of failure, he would continue to receive training in the same Industries for different work, and further attempts would be made to place him.

All partly disabled men employed by private firms would be insured against further accident by the State, the firms being relieved of this responsibility.

As regards patients in Mental Institutions, full facilities for occupational therapy would be provided in every hospital. It would be supremely important, however, to secure the immediate entry of patients into ordinary work on their leaving hospital. Special efforts would be made to place them directly in private enterprise, and to this end standing joint committees might be formed by Medical Superintendents and the Local Employment Exchanges to enlist the aid of business managements and their labour departments in absorbing the ex-patients.

Where such work could not be found at once, each man discharged from hospital would be given the choice of continuing to serve in the industries attached to the hospital or of entering the State Industries.

A further case to consider is that of the worker who has had a nervous breakdown. In the projected scheme he will be treated by a clinic (such as the Tavistock Clinic) or doctor, who will in due time refer him for light work to the State (Part-Time) Industries. Similarly, medical cases not serious enough to involve hospital treatment will be

dealt with by doctors who may recommend their patients for courses of light occupation at these part-time works before they return to regular employment.

Payment in terms of hour-notes in the State (Part-Time) Industries would be more generous than in the State Industries proper — that is, piece-rates would be somewhat higher — but a strict limit would be imposed on the number of weekly hours which any employee might work. He would receive, in addition to hour-notes, the customary disablement pay or health insurance benefit.

Finally, reference must be made to the large number of cases of unemployability which arise from temperamental un-balance or inhibition. Most of these, it was said, are caused by protracted unemployment, their avoidance being possible only if general slumps can be abolished. Without this fundamental achievement little is possible in any field. Success in national planning must therefore be assumed. Given this large assumption, long unemployment and the resultant loss of confidence for large numbers of the unemployed will be escaped, and many of the most intractable psychological cases will never arise. Nevertheless there will always remain a certain number originating in other causes such as bad home conditions. The treatment of these is rarely possible through organisation alone. Personal contact such as a club can offer, with its association of communal life, friendliness, joint enterprise and, often, a strong impulse of religion, must add necessary warmth. In so far as State Industries can attain the same club spirit without loss of efficiency they will have success with the special or problem case. The core of the remedy appears to rest in a real concern for the individual together with the recognition that the individual's own full mental release depends on his developing a sense of maximum contribution in step with others. Human cures of this kind obviously arise more from personal initiative than from perfected organisation.

## PART V

# THE ALTERNATIVES

## CHAPTER XXIV

### *Private Enterprise*

IN a system of Private Enterprise any national plan, however well conceived technically, is liable to fail through political or psychological frustration. It is not enough, therefore, merely to present the economic features of a projected plan, as has been done in Parts II, III and IV; in addition, some estimate must be made of the strength of the non-economic barriers which may oppose it. If these barriers seem likely to defeat any indispensable part, the whole plan must be jettisoned. The alternatives which arise then are, either to devise a different plan within the competitive system, or to transform the system itself fundamentally.

In what follows the attempt is made to show that the frustrations met by the particular plan favoured in these pages will confront any plan whatsoever which is framed in a private economy. The aim is to prove that if this plan collapses before their resistance any plan in the same setting will likewise collapse. To establish this difficult thesis it will be necessary to review each outstanding feature of the proposed plan, to indicate that something akin to it is essential in any complete plan under private enterprise, and then to discuss the forces arrayed against it.

If the conclusion is reached that planning within the competitive system is profoundly difficult irrespective of the method used, the corollary will follow that the prospects for a wholesale change in the system should at least be examined.

### *Consuming Power*

The term "planning" appears to have several meanings. Sometimes it connotes nothing more than the organised control of a single

factor, such as the flow of capital, or of a single industry, such as railway transport. In this book the meaning implied is much broader. "Planning" is understood to signify the concerted pursuit of an accepted purpose, namely, full employment. More important, implicit in this term is the notion of totally eliminating chance. A national plan is a scheme intended to bring under unfailing command every factor which is essential to the attainment of the end.

On this definition, assuredly consuming power must be planned. Without direct control, the volume of consumption might no doubt by good fortune remain for long at the level necessary to support full employment. During the years 1900 to 1913 no human control was in operation at all, yet consuming power in fact remained high enough to prevent any marked slump except for a brief period after the boom of 1907. This merely happened; it was not contrived by men. Similarly it may happen that under a scheme of planning which depends on some other main pillar — say, the deliberate creation of particular jobs for all men, or the social control of investment — consuming power will remain continuously adequate. But such a vital condition cannot be left to economic hazard in any truly planned system. The failure of consumption will in the end destroy any scheme, whatever the rest of its design.

It will be taken as axiomatic, then, that the direct regulation of the people's aggregate capacity to consume is an inescapable feature of any system of private-enterprise planning; that this entails the raising of consuming power through pre-arranged methods; and that such action is to become part of the Government's acknowledged routine. The practical problem then to be faced is, By what mechanism will the Government apply these measures, and what opposition will it meet?

For argument, the mechanism may be typified by three devices: raising consumption by an advance in the "minimum standard of living"; financing the increase through State borrowing from the Banks; and financing the increase through special taxation, such as a Capital Tax.

### *Raising Consumption*

The principle of raising the standard of living as a means of fortifying markets is new to British Governments. Hitherto when there has been most urgent need for strengthening demand the Government

has pursued the reverse policy, as in the slump of 1931-3 when the standards of State dependants were cut down through the Means Test and reduced benefits. Further, whenever standards have been raised, the specific aim has been to succour the needy, not to sustain markets. Planning calls for a complete change of emphasis. Whereas it may be abundantly clear on Samaritan grounds alone that there is need for social schemes, the stark fact which the study of planning reveals is that without these schemes the economic system as a whole *will not work*. The system requires always the stimulus of keen demand to make it thrive. Ultimately, the quickening of demand is impossible save through measures which raise consumers' incomes; and social schemes are primarily, under a system of planning, the medium and good excuse for raising incomes. Moreover — and most important — the magnitude of the schemes will be governed no longer by human sympathy, but by an estimate of that amount of increased consumption which is necessary to keep the system fully active. Merely in order to maintain the smooth functioning of the system, expenditure will be required far in excess of any level which humanity's conscience has so far dictated.

The change entailed is revolutionary; no doubt it will be powerfully opposed. The first barrier to receive the impact is the "Treasury mind". Certainly the officials who now grapple with wartime finance have for the duration thrown off any enslavement by peacetime ideas. Nevertheless, these ideas have immense force whenever the nation is not convulsed. One principle, sound in itself, is that the Treasury's duty is to eliminate waste. When, however, a lifetime has been spent in tracking down avoidable outlay, it must be hard to escape the habit of regarding all expenditure askance. And when to this duty is added the solemn annual responsibility of balancing the Budget, new national commitments must inevitably figure in the mind as something to be sternly repressed. No Treasury official can be reproached if, after twenty years of concern for honest, balanced Budgets, he acquires the sense that expenditure is the nation's most malignant enemy.

The politicians whom the officials advise and then obey may only confirm their mental processes, for most politicians, once in office, become equally obsessed by ideas of economy which gradually congeal into the false principle of anti-expenditure. Chancellors especially fall under the spell; and indeed they seem to be chosen chiefly for the

glutinous efficacy of their powers of negation. Behind the Chancellor and Parliament lies the British public, which in general demands of its delegates that they present each year a balanced Budget while if possible reducing tax burdens.

Now, by the simplest axiom, high expenditure is not possible on this basis. High expenditure involves a seriously unbalanced Budget or exceptional taxation, or a combination of both. Thus, until the British people reject their former tests in favour of one of these, expenditure must continue on an illiberal scale, and the hope of strong planning is void.

Here, then, is the central and crucial issue. It is the British voter and taxpayer who ultimately determines whether private enterprise can or cannot be planned. His decision is made, not by any direct vote on this point, but by the freedom he allows the Government to present at one time a thoroughly "dishonest" Budget and at another a Budget incomparably more exacting in its "honesty" than anything experienced even in wartime. An unbalanced Budget at one appropriate period; a Capital Tax in compensation, or in advance, at another: these extremes must be viewed as absolutely normal by the British people if they wish to give the Government scope in planning.

It is true that after the first eighteen months of peace every unbalanced Budget might be compensated in advance by the provision of a Reserve Fund. It is also true that after the same period high expenditure could, if necessary, be maintained year by year on the basis of balanced Budgets. For instance, if a yearly Capital Tax were added to ordinary taxation, enough revenue could be gathered to support the necessary level of consumption. And each year expenditure might then be balanced by revenue. However, there are certain drawbacks to this course. In the first place, the Government can never know accurately in advance how much it will need for increasing consumers' incomes. As noted, the size of its task depends partly on how much consuming power industry generates through higher wages and incomes. Hence the Government cannot budget for an exact annual expenditure. Since it must be able to raise expenditure swiftly on occasion, the ideal procedure is to endow it with a reserve. This reserve, it has been proposed, should be replenished from time to time, say every two or three years — though the interval might be longer — by means of a Capital Tax. In the years when the tax was not imposed



the Budget would obviously be unbalanced.

A second ground for avoiding a yearly tax on capital is that such a tax would tend to be regarded as a reduction from income and would diminish the taxpayer's personal spending more than would an occasional levy raised at longer intervals.

If, therefore, the proposal for a reserve fund to be renewed from time to time is sound, it means that the British public must develop such confidence in its Governments that it will sanction expenditure up to, say, £500 million in excess of revenue in one year, and approve special taxation to the extent of £1000 million or more in the next. This is asking much.

It means, further, that every Government in office must develop the same confidence in the Opposition, and prepare the way for the Opposition by establishing and maintaining the Reserve Fund precisely as it would if no change of Government were in view.

Let us waive for a moment the economic ideal. Let it be supposed that instead of adopting the principle of a Reserve Fund with consequent alternating balanced and unbalanced Budgets, the Government proposes to plan on the basis of balanced Budgets, meeting all high expenditure with high taxation. The profoundest difficulty will still remain. The adequate expansion of consuming power calls for huge expenditure, and for this purpose the mild Budgets of pre-war days will be utterly unavailing. If the experience of the first year of war is a fair guide, Budgets of pre-war build may have to be even doubled before unemployment is brought near abolition point. In wartime there is a powerful, universally accepted excuse for vast outlay. In peacetime there is none, that is, for *adequate* outlay, save the conviction that unless enough money is spent the system will collapse.

Doubtless there will be good social excuse for increasing expenditure up to a certain point. Any Chancellor in peacetime could find strong reason for spending an additional £200 million; but let him be asked to justify double or treble this outlay: his purely social reasons would begin to seem weak. In the end he would be compelled to say, "I am less concerned with the direct object of this outlay than with its implication for the national plan. His Majesty's Government is responsible for maintaining the British people's capacity to consume. This the Government can achieve only through expenditure. If less

is spent, domestic consumption will weaken, unemployment will rise, and the national plan will be destroyed. The proposed expenditure is intended primarily to maintain the plan." When the British voter has learnt to applaud such a statement from the Chancellor, there will be hope of sound planning under private enterprise.

Meanwhile, realism demands the recognition that the obstacles to adequate expenditure are enormous: the official mind; the political virtue of economy; objection to an increasing National Debt; fear of a recurring Capital Tax or of any other direct tax with high enough yield; and the lack of any justification for part of the expenditure except that it seems necessary to make the system function.

### *The Fixing of Prices*

It has been constantly emphasised that a national plan which successfully enlarges consumers' incomes will create a strong tendency for prices to rise. The same effect will be produced by any plan whatsoever which begins to approach the ultimate end in view — full employment. When industry can absorb no more labour it can produce no more output, except in so far as efficiency may rise. A condition verging on acute scarcity develops. At the same time full employment creates robust markets and a demand which is not discouraged by rising prices. In these conditions it is an act of self-denial for any producer to refrain from increasing his charge; and few will be prepared to adhere rigidly to a given price level unless they can be shown cogent reason for doing so.

After the war it will become increasingly difficult to justify restraints. Pretexts for raising prices will abound: the famine of materials; high overtime rates, especially for skilled labour and key men; the exceptional cost of scarce imports; superior returns from export. Even without the stimulus of a national plan many producers will begin to raise their prices. And the effect of a plan, since the object is to reinforce demand, will be to perpetuate the inducement to raise prices.

In brief, a successful national plan is one that generates a permanent risk of inflation. To complete the success, therefore, every national scheme should provide ample machinery for pinning down prices. This appears to be a *sine qua non* of competent planning in a private economy.

Although considerable price rigidity is in the interest of industry as a whole whenever demand tends to outrun supply, individual producers can as a rule make profit by ignoring the control and raising their prices. Individual interest is opposed to the common interest. In a democracy where action must command majority consent the development of a safe price structure will depend, at the outset, on the emergence of what might be termed a "plan morality" — a readiness to subordinate rigorously any sectional interest which conflicts with the national. One absolute condition of the growth of such an attitude is a universal understanding of the logic on which the plan is based, followed by a co-operative acceptance of the plan.

In the foregoing chapters a mechanism has been proposed for fostering this condition. It has been suggested that the Industrial and Economic Parliament should itself invent the national plan ; that for each industry a special Committee should be formed ; that this Committee should evolve that aspect of the plan which affects the industry represented ; and that the industry, with the aid of Regional Industrial Conferences, should be responsible for the application and observance of the plan locally. If administrative method can assist the growth of co-operation, perhaps this method would be as sound as any. But some quality transcending method seems to be required.

Even with support from a strong majority of an industry it will not be a simple matter to secure adherence to a fixed maximum price. Opposition may in some cases spring from reasonably good pretext. The justice of the price may be questioned on grounds of the wages or profit derived from it. Costs may vary in different parts of the country, justifying price discrimination. Disputes may arise over the grades and qualities of different firms. Some may feel entitled to a return for goodwill built up through half a century's reliable workmanship. In the absence of such solid grounds for locally raised charges, excuses can readily be invented ; and there will be little opposition by customers to special exactions so long as the plan creates active demand and a relative scarcity of supplies. Black markets are presumably as easy to establish in peacetime as in war, and the lack of public indignation will increase the difficulty of confining them.

It has been emphasised that a strong voluntary element will improve the prospects of any price-fixing system in Great Britain. It

may be added that where the goodwill of the majority is assured, there is always the possibility of reinforcing a majority decision by legal or other sanction and thus making it universal. In the case of price determination, it was suggested, a Price-Fixing Board might review all decisions made by industries and where the decisions were approved they could be enforced through an official inspectorate. By such means voluntary action and coercion would work in alliance.

Yet there is always a risk even in this slight use of force. A voluntary enactment which becomes law, and thereby stands partly on a new base, turns into something intrinsically and psychologically different. Several subtle changes take place. A sense develops that only the letter of the law is important and the mind is tempted to work on its favourable interpretation. The law becomes the object *against* which thought is exercised, an enemy to be worsted or circumvented. Sooner or later, if this kind of change takes place in the minds of the majority, an attitude totally different from the initial constructive one emerges and the very system which the law purports to sustain may be undermined.

That it is not impossible to uphold a comprehensive system of price-fixing in a private economy has been proved by experience abroad and by wartime practices in Great Britain. But it seems undeniable that this will make the most searching demands on human nature at any time when no national emergency exists.

### *Wages*

A peculiarly insidious threat to the price structure arises from the fact that stable prices are impossible without control of wages. If wages are anarchically raised without enhanced efficiency, they will burst the price ceiling. It may be recalled that after the last war, particularly in the winter of 1919-20, wages and prices chased one another in a vicious spiral and gave rise first to inflation, then, by reaction, to general breakdown. Every advance in wages became the pretext for an advance in prices till ultimately the process was overthrown by the ruthless check of monetary deflation.

To prevent a similar occurrence after this war it has been suggested that, whereas employers and workers should continue to fix wages where possible by agreement, they should always have regard for the prices approved by the Price-Fixing Board, and that any party which

considered the wages to be incompatible with the prices fixed should be entitled to submit the case to the Board, whose verdict would be final.

Without this deciding voice in wage determination the Board becomes powerless in its own sphere. It can do little more than confirm every wage change, just or unjust, by sanctioning a corresponding price change. Its grip over the price structure is loosened and, in conditions of rising trade, ultimately destroyed. The national plan is likewise destroyed.

Nevertheless, any proposal to submit wage disputes to central arbitration strikes directly across the whole policy and tradition of the British Trade Union Movement, and unless there is a revolution in ideas among labour leaders the proposal will be rejected outright. The established philosophy of the Movement is not without solid basis. Since wages represent a high proportion of the community's consuming power, the constant upward thrust of wage rates is essential merely as a means of vitalising the system. Trade Unions, in assuming the task — albeit for other reasons — have always believed that war conducted on several hundreds of fronts will prove more fruitful than one combined offensive. Each union has had the benison of all others in fighting for its own limited ends, even though the gain has often not been at the expense of employers; and in order to assure every union complete liberty of action, the co-ordination of wages on a national footing has been inflexibly withstood.

Belief in independent agreement in each industry is upheld by a further sequence of reasons. The primary function of organisations of workers, it is said, is to negotiate. If their power is removed in the most important of all spheres, the fixing of wages, they may lose their influence for any purpose whatever. Moreover, since they speak for the great majority of the workers of the industry, the decisions they reach, whether by conciliation or trial of strength, will be the decisions of the workers, and agreements based on their negotiations will prove stable. Once established, the decisions will be enforced by the parties concerned without recourse to cumbersome processes of law and drastic penalties for evasion.

Arguments for the continuance of the pre-war system will therefore undoubtedly be strong. Nevertheless, the issue is quite clear-cut. A successful national plan is one which, in a private economy, tends to

force up prices. If to the inducements which tempt every employer to raise his prices there is added the irresistible coercion of rising wage costs, inflation will result and the national plan will collapse. In the last resort the choice is between, on the one hand, the liberty of trade organisations to fix wages by independent negotiation or test of strength and, on the other, the liberty of the nation to plan.

### *Special Schemes*

Planning will involve a still more devastating attack on the unions' traditions when it begins to entail the transfer of workers from one trade to another. In a system of Private Enterprise, in which the threat of unemployment permanently shadows every worker, it is not unnatural that union rules should be devised to secure the position of particular exclusive groups. Each group begins by assuring for itself boundaries as precise as those of a new State. After establishing exact lines of demarcation, the group proceeds to lay down equally strict laws of entry governing the proportion of apprentices and unskilled workers to skilled artisans. The attempt is then made both to restrict "immigration" and to prevent other trades from crossing the recognised frontiers. Any inflow of labour infringing the rules is known as dilution.

Now "planning" and "dilution" are virtually synonymous. Planning inherently means the deliberate enlargement of one trade to absorb the unwanted labour of another. A Planning Authority which cannot effect transfers lacks the most rudimentary and indispensable of all powers. After the war, especially, there will be a need for expanding certain industries to compensate the inevitable contraction of others; and if, therefore, there is a renewed attempt by unions to fence themselves around, the degree of their success will be the measure of the failure of the post-war plan.

It is sometimes contended in criticism of State-ownership that a completely planned system involves untrammelled mobility of labour and that, to attain this, profound psychological difficulties have to be overcome. But the difficulties under Private Enterprise are incalculably greater. This is not merely because trade union rules have become set. It is because there is every justification for their having become set. In a system wherein every third man suffers severe unemployment at some time in his life and many remain perpetually unemployed,

nothing else is to be expected than the organisation of the entire labour force in defensive blocs.

Finally, it has been urged that any national plan worthy of the name will provide for men and women who are permanently outcast from industry. The "unemployable" are those who cannot pass the tests jointly laid down by employers' and workers' organisations. Whereas workers combine to defend a certain minimum wage, employers decide what men qualify to receive it, and between these scissor-blades people are cut away in large numbers from further employment. Unless the State enters on their behalf they are sentenced for life.

The gravest danger is that the fences erected by employers and workers to protect the majority interest may be raised to prevent even the State from rescuing the derelict. It cannot be too firmly insisted that the *only* salvation for these people is some form of comprehensive intervention such as is provided through State Industries. Private industry and charitable organisations may salvage a fortunate few, but during a protracted slump when the stream of "unemployable" becomes an inundation, not more than the fringe of the problem can be touched by any scheme less in scope than the one contemplated.

Yet it must be admitted that the State Industries scheme will be assailed fiercely as soon as it is mooted. To employees it will present itself as a subtle threat to wage standards. To employers it will mean a deliberate trespass by the State on fields formerly regarded as the monopoly of private interests. How far these fears will be justified depends on the completeness of the success of the national plan. Were every part of it to succeed, the State Industries would hold no threat whatever to private trade; but if there were serious breakdown, for instance, in the programme for expanding consuming power — which, as noted, is not politically easy — there would be a large and immediate growth of State Industries at the expense of private firms. By reason of the uncertainty of conquest in the political field, employers might be unwilling to take risks. It seems probable that every traditional argument against State trading would be poured out against the proposed rescue work.

*Success must be Integral*

The crucial weakness of any national plan under Private Enterprise is that, like a castle of cards, it must crash if but one section collapses. All parts depend on all. Nothing can redeem any failure to expand consuming power. If there is success in this, nothing can redeem any failure to hold prices. Success in the control of prices depends on the control of wages. Success in all these things will be brought to nought if there is failure to effect the physical transfer of labour from one trade to another.

Moreover, the battle for success has to be fought ceaselessly in every part of the community. At every General Election the votes of the people must be won for further immense expenditure. At every change in Government, the new Administration must accept and understand the plan of the rejected Government. Successive Chancellors must learn to exult in vast outlay. Every day, every section of employers, every group of merchants and every retailer must renew loyalty to price agreements. Every week, every employee throughout the country must accept a wage determined by a procedure against which he agrees not to strike. Every day, both employers and workers must be prepared to see the State break into private territory and ignore lines of demarcation in the interests of less fortunate workers.

Technically, it seems that each separate problem raised by planning is soluble. For this reason an enquiry into planning in a private economy tends to be misleading: the enquirer is led on from one difficulty to another and gains persistent encouragement from seeing that each separately can be overcome. It is easy for him to fail to see that every particular solution makes fresh demands on human nature and that when all demands are added together they make an enormous, probably overwhelming, accumulation. It is still easier for him not to perceive that a weak response by a single class or group — whether that of voters, politicians, taxpayers, public officials, employers or workers — will destroy all solutions at a stroke.

*Partial Organisation*

Underlying every kind of organised frustration is a type of group self-interest, the emergence of which seems virtually inevitable in a system where individualistic rivalry is extolled and ranked as a principle. Whenever, in such a system, people combine, it is primarily to



promote ends related to their own responsibilities and concerns. Trade Unions are openly and expressly formed to safeguard the interests of their own members who otherwise would be a prey to oppression. Employers' Unions are a means of retaliation. Founded upon this division political Parties are set up to carry the strife into the legislative field, so that a double front develops on which battles rage for the improvement of industrial conditions and the more equal distribution of income. All organisation, whether in the economic or political realm, tends to be on a partial or sectional basis.

Such partial organisation, by reason of its lack of restraint, is inherently inimical to planning. Rarely, if ever, does any organised group prove more moral than the individuals composing it : indeed, the group as a rule not only discards all ethical principles recognised as the mark of a just man ; it clothes its unrighteousness in the garb of virtue. Thus a nation in its political, organised aspect is more frankly self-seeking, ungenerous, bellicose, unforgiving, vindictive and, above all, self-righteous than any of its tolerably educated citizens. Attitudes which they would spurn as insufferable in an individual are recognised as normal and becoming in a nation. Lesser groups within the nation may not reveal the more flagrant and bombastic of these traits, and in the industrial sphere there are increasing numbers of impressive exceptions ; but in peacetime there is at least a strong tendency among many trade organisations to give a vehemently intensified reflection of the self-regarding aspects of their members' personalities, to the exclusion of the generous, the warm and the admirable. They exist manifestly to get and to defend. Political bodies breathe in the infection, and in peacetime behave in ways which would be regarded during a war, when the nation's interest is in truth paramount, as scandalous.

Planning, which is a highly national undertaking, can succeed only if the conflict of partial organisations can be brought under the most stringent discipline. In a democratic State where freedom of association is a fundamental right, the discipline cannot be other than voluntary. Its emergence will depend on the growth within each group of the compelling recognition that civilised existence is no longer possible without an efficient plan and that this calls for the subordination of each sectional interest, however significant in itself, to that of the nation. To attain such a discipline in a competitive system is a high

aim. It is not impossible. Nothing is impossible. But by its very nature the system continually wars against the rise of the desired attitude. There is in fact direct opposition between the *notion* of each for himself in the competitive struggle and the *notion* of national planning.

The competitive system is perhaps not so black as it is here drawn. The fair picture may be more grey or patchy. And any realistic picture of a system of State-ownership may not be more shining. However, as a system it is the sole alternative, and on that ground alone it merits attention.

## CHAPTER XXV

### *State-Ownership*

PLANNING with intent to introduce complete State-ownership will differ from planning under Private Enterprise in three main ways. The first is in respect of the taxation of capital. In a private economy a Capital Tax may be designed either to reduce the National Debt or to provide a fund for increasing consumption. When State-ownership is the goal the tax must achieve much more. It must eliminate the National Debt altogether and then absorb real property for ownership by the State.

Secondly, as a corollary to such action, comprehensive measures will be needed for sustaining people formerly dependent on private capital. The preparation of these measures would in reality precede the tax and would be the Planning Authority's initial concern.

Thirdly, in the preparation for State-ownership, all Special Schemes would be reviewed in the light of the intended programme of nationalisation. There would be a recognised sequence for the transfer of industries to the State, and the various industrial schemes would be adjusted according to this sequence.

Apart from these distinctions the alternative post-war plans would show little difference even in detail during the first three years. Divergencies would become increasingly marked as from the fourth year of reconstruction.

It should be reiterated that the transition to State-ownership will take not less than five years to complete. The hypothesis throughout this chapter is that the transition will be effected through parliamentary procedure with the support of an ample majority of the people. It is assumed that the change is to be made in an orderly fashion in each industry with the active connivance of its leaders, and that the main thought throughout will be to lay plans so that no breakdown will occur during the process of change. On this understanding reorganisation will take time. Much time will be involved for initial enquiries and the drafting of schemes. Thereafter, examination by Cabinet and Parliament will extend the delay. When approved, some schemes will

be applicable forthwith; but in industries such as Building and Engineering, which are now controlled by thousands of firms, the development of a central administration capable of directing them nationally would be a long task.

It will be during the early stages of the transition that certain major problems of the war's aftermath will arise. These will be faced for the time being in a setting in which private enterprise still preponderates. Security lies therefore in planning on the assumption that the difficulties of a private economy will for some time persist. In other words, a programme of reconstruction suited to the competitive environment should be adopted as foundation, and on it should be built the distinctive measures which will recast the economic order according to the new mould of State-ownership.

These superimposed measures will form the subject of the discussion immediately below. In the next chapter summaries of the alternative reconstruction plans will be submitted together for comparison.

### *First Steps towards State-Ownership*

One of the objects for which the war is being fought is presumably to safeguard a political system in which concern for the individual ranks first. The acknowledged principle is that if order is to be maintained, and if the individual's liberty is to be curtailed in the interests of order, the purpose is still via new order to enhance the life and maximise the average liberty of citizens.

Such a philosophy implies that the purpose in establishing State-ownership will be to enrich individuals. Hence the starting point in all planning will be consideration of the well-being and opportunity for development of every citizen in the country, whatever his position. To this end, one necessary step will be to create economic security through insurance.

### *Nationalised Insurance*

In a mature economic system social insurance will largely take the form of the continuance of full pay to people temporarily incapacitated. Apart from cost, the main ground for refusing full wages to the unemployed or unfit in a regime where unemployment is widespread is the fear that such payment would lead to the evasion of work.

Where, however, the State itself can offer work to all comers, it is impossible for any man or woman to shirk without being at once branded. Those who refuse jobs without good reason can be treated separately. The rest, the overwhelming majority, may with safety be put on a salary basis at a rate which remains unchanged when they are sick or injured, or when they become momentarily idle through some failure of the administrative system.

In a completely State-owned system the same principles would apply as now operate in the armed Services. The aim in the Royal Air Force, for example, is to raise all ranks to the highest efficiency. If a pilot falls ill he is not deprived of pay ; he is given medical treatment, reconditioning and light duty till recovery is complete, and meanwhile his pay continues unchanged. Likewise workers temporarily incapacitated in a State-ownership system would receive free medical, surgical, dental, hospital or clinical treatment, and would be paid their ordinary wages so long as they were under care. Those who sustained permanent injury would receive a pension and would be referred to special State Industries for training and subsequent employment according to their reduced capacity.

Further, when the economic system becomes fully developed, although pensions will be provided at retirement age, a scheme of partial retirement will enable elderly employees to supplement their income by part-time light work arranged, again, by special State Industries.

Widows' pensions and children's allowances will be on the basis of the optimum standard of living attainable with the given national output.

Despite the wide range of such State provision, voluntary insurance will not be rendered superfluous. Often when there is a mishap the occasion demands an immediate addition to income. How large the increase should be is a matter for personal choice whenever an individual has the means of insuring privately. To assist him, voluntary schemes covering every insurable contingency might be developed by the State.

In the plan here proposed an Insurance Department under the Board of Trade would be required to evolve a comprehensive system of voluntary insurance. The Department would be formed by the State purchase of the shares of existing British assurance companies,

and the amalgamation of their directorates and staffs to cover the entire field by one organisation. Every manager and employee would become a Civil servant receiving pay from the State, though his work would remain substantially unchanged.

It will be especially important in a system where private savings are small, to establish a voluntary scheme whereby men may safeguard their widows and any dependants who become incapable of earning. Whether through a single all-in scheme, or through a combination of separate schemes, every citizen should be enabled to make provision, according to his means, for his own retirement and for his widow or invalid children.

### *Personal Incomes Commission*

There remains a weighty obligation — namely, that of providing for people whose capital is to be transferred to the State. Some will be qualified to fend for themselves because they have capacities required in nationalised services. They can become salaried State officials. But tens of thousands of others are without qualification of any kind. They are the pure rentier type, the sleeping partners of industry. And it is they who are liable to bear almost the whole brunt of any suffering caused by the change to State-ownership. It is important to consider them as individuals.

The picture given by cartoonists of the idle capitalist who rides on the worker's back — a vast deadweight of human flesh with gross contours — is scarcely true to life. The most clearly typical of the majority of this class would be a shrivelled, genteel old lady. If the reference is to people who are completely incapable of surviving by their own efforts and subsist on interest drawn from factories they have never seen, the figure to be taken as representative is that of the widow or daughter of some industrialist, politician, Civil servant, Trade Union leader or professional worker : an elderly woman who, having spent her days as the less conspicuous domestic partner in a joint undertaking, has retired on the fruits of the partnership. There are many other kinds of capitalist ; but the great majority of those who do nothing, and can do nothing, in return for what they get, are very old and very feeble. It is a bad system that throws aside people who have served when they can serve no longer.

The treatment of these citizens must accord, however, with the

larger purposes of the State. The national plan, on which the livelihood of all citizens depends, is the overriding concern. The central economic purpose in creating State-ownership is to simplify planning. And the key to the new simplicity rests in the ability of the State, as first recipient of all income, to control the distribution of income between consumption and investment. In a private economy such control is difficult because legions of individuals separately decide their ratio of consumption to investment. And since the most attractive form of personal security is gained through saving, with intent to invest, there is a general tendency to save too much and consume too little.

The State can remedy this, when absorbing all capital, by saying to the dispossessed : “ (1) You will be allowed to consume as much as before ; (2) that part of your income which normally you would earmark for saving will be absorbed by the State and some of it will if necessary be devoted to consumption ; (3) the remainder will be invested in plant producing goods for which there is an assured demand ”.

The main point is that in a planned system, since all resources will be fully used, output will rise and must be matched by a rising level of consumption. The State need not be niggardly in fixing the consumption of any of its people.

Accordingly it is suggested that if State-ownership is to be the post-war system, one preliminary step should be the formation of a Personal Incomes Commission to examine every case submitted to it of income reduced by the transfer of capital to the State, and that the Commission should grant life annuities based on the individual's average personal expenditure in previous wartime and pre-war years. A formula might be adopted for adjusting each annuity to an amount such that the individual's total income would be maintained at the level of his former consumption with allowances for dependants and customary charities and gifts.

Under the series of capital levies to be proposed a residuum of capital would be left to each individual for emergencies.

### *The Transfer of Capital to the State*

The Act of Parliament for creating State-ownership might take the form of a special Finance Act for transferring to the State approximately 75 per cent. of the country's real capital through a series of three

capital levies. The first would eliminate the National Debt and transfer to the State 25 per cent. of the country's industrial property. Two more levies at intervals of, say, eighteen months might raise the total owned by the State to 75 per cent. Subsequent Finance Acts would make further transfers if it seemed essential that all productive equipment should be State-owned, even that of Agriculture, Entertainments, the Newspaper and Publishing industries and other concerns in which individuality, taste and variety are of first importance. However, the absorption of three-fourths of the national capital by the State would give it the dominion necessary for every aspect of planning; and that is the chief interest in this book.

The reason for transferring the capital by instalments<sup>1</sup> is that some years would be required for developing administrative control over three-quarters of industry, and that the transfer of *ownership* to the State before it had assumed *control* would lead to complications. For instance, if most of the capital of a mill passed into the State's possession while the former mill-owner was still in charge, he might be disposed to raise his own perquisites as manager to the extinction of all interest on capital. As a general principle, to which there may be exceptions, the rate at which the State can with advantage buy or take possession of industrial property will be governed by the rate at which it can develop management over actual firms.

### *The First Levy*

If the National Debt rises to £17,000 million or more and the real capital of the country is valued at about £25,000 million, the first levy will be required to yield more than £23,000 million. The impost will necessarily fall on fairly small fortunes as well as on large, and might be steeply graded from a tax of, say, 25 per cent. on personal capital exceeding £2000 to 90 per cent. on the largest amounts. Such figures are purely illustrative, since the future distribution of capital and its valuation cannot be forecast.

In a levy of such size it will be necessary to permit payment in a variety of ways: by the surrender of Government Loan, trustee stocks, industrial debentures and preference shares to be accepted at

<sup>1</sup> An alternative would be to impose a single levy, but make the *collection* by instalments. The objection to this, however, is that the difficulties of valuing the smallest fortunes would have to be faced in the first assessment, a task which might suitably be postponed till experience had been gained in a preliminary levy affecting fewer contributors.



prices fixed in advance ; by the surrender of land ; and by mortgages on capital not easily realisable.

The Treasury would arrange for the gradual sale of any transferred assets which it was not yet prepared to hold and administer, and would apply the proceeds for the redemption of debt, the purchase of land and the purchase of the shares of public utility companies, railways, banks, insurance companies and any other undertakings which were to be immediately nationalised.

### *Debt Redemption*

Government Stock surrendered in payment of the tax would be cancelled forthwith. The rest of the Stock would be redeemed by a process in which the Government, having secured temporary accommodation from the banks, would pay off the remaining holders of Government Loan, then sell to these holders assets derived from the levy, and with the proceeds repay the banks. Briefly, assets accruing from the levy would thus be exchanged for Government Loan, which would be cancelled.

### *The Purchase of Land*

Owners of large estates might pay much of their subscription to the levy by surrendering land. If all land is to be nationalised, the Government will purchase whatever remains in private hands after the levy. To do this it could follow a procedure similar to that proposed for redeeming debt — buying land with borrowed Bank money, then selling levy assets to the former land-owners, and repaying the banks with the proceeds.

Land-owners' residual incomes would be made the subject of enquiry by a special branch of the Personal Incomes Commission working in conjunction with a Land Department in the Ministry of Agriculture. Some land-owners with personal experience might be appointed as agents of the Department for the upkeep of the land surrendered. Some might be entitled to special consideration as members of the House of Lords. The general principles governing the work of the Personal Incomes Commission would apply in every case.

To safeguard the public amenity value of parks and estates formerly maintained at the land-owner's expense, the National Trust might be invited to survey all land and recommend to the Land Department

what grants for upkeep should be made in respect of each scheduled area. Subject to safeguards the grants would be paid to the one-time land-owners, who would continue as occupiers with the permanent right of tenancy and the right to pass on the tenancy to their heirs.

Farmers who were previously the owners of their land would continue farming it as tenants of the State.

The Land Department would be responsible for the entire land-investment policy of the nation, subject to the general investment policy of the Planning Authority. Whereas the Planning Authority would fix the total amount to be invested in land over given periods, the Land Department would determine the nature and distribution of the investment, and the charges to be made to farmers whenever the Department undertook the special improvement of their land.

### *Coal*<sup>1</sup>

The nationalisation of any industry which contains large numbers of directorates raises perhaps the most difficult of all the human problems involved in the change to State-ownership. The effect of nationalisation is to concentrate the functions of the entrepreneur into few hands. Many directors may in consequence lose their role altogether.

Under private enterprise there are two types of director. There is the director-manager, who combines the function of risking capital with that of managing a department. By reason of his technical skill no difficulty arises in finding a place for him in any economic system. Then there is the director pure and simple: a person whose sole duty is to decide the use of capital. Because part of the capital is his own he is assumed to be the individual most qualified to determine the best disposal of it. In any event someone must perform this task, and it is not a light one. It involves the study, on the best advice available, of the advantages of every suggested extension of works, modification of method, large-scale economy or other change involving the raising and distribution of capital.

Under State-ownership this duty is largely transferred to some central or regional Control. In the case of Coalmining especially,

<sup>1</sup> These paragraphs were written before the Government announced its scheme in June 1942 for reorganising the Coal industry; but as the scheme appears not to envisage State purchase of the mines, the present skeleton plan has not been changed.

decisions respecting the opening of new mines, the method of exploiting the old, and the type and quantity of machinery to be used, will be made for the most part by district officers commanding the services of the nation's best geologists, mining engineers and cost accountants. The local management in each pit will be responsible for the detailed application of decisions and for making proposals for fresh development. But clearly the local managers could not be allowed to govern the amount of investment, since they would have neither personal stake nor comparative data to afford a basis of judgment. In other words, under nationalisation the function of the former director who assessed risk and disposed of capital, and had no other part, disappears.

Loss of employment will not result in loss of the director's consuming power if the scheme for maintaining consumption through the Personal Incomes Commission is in force. But compulsory unemployment is for many people galling, whatever the size of the retirement pension. The task of risk-taking is central and indispensable in the present system. Suddenly to deprive a man of this responsibility and give him no other is a bitter judgment.

It would be a mistake to suggest that there is any simple remedy. In a system of State-ownership there is no place for any man who is without some kind of technical or administrative skill. The solution is therefore hard, inasmuch as it calls for an attempt on the part of every applicant for a managerial post to acquire the necessary skill. For many the sole avenue to new employment will be through some form of disciplined study or practice such as men undergo up to their middle twenties.

All who were prepared to make the effort could be absorbed either by consumption-goods industries or by their own industry as reorganised. In the plan for taking over the mines it will be understood that a Coalmining Control is to be set up under the Mines Department. The Control's administrative system might suitably comprise two branches, a Marketing Control with a Director of Marketing in each recognised district, and a Production Control with a corresponding Director of Production in each district. The local directors would have full executive powers within the general lines of policy laid down by the Control, subject to instructions on quotas and the use and distribution of capital.

As advisory body tendering counsel to the Coalmining Control,

and supplying the district directors and mine-managers with information and technical advice, there would be created a Coalmining Efficiency Service drawn from the managements and technical, labouring and accountancy staffs of highly progressive British mines, from firms producing mine machinery, and from marketing and research organisations. This Service would examine every aspect of mining activity, including survey, the sinking of new shafts, appropriate machinery, safety measures, air conditioning, lighting and pumping, methods of payment, optimum hours of work, methods of transport, grading of coal and all other factors affecting health, security or economy in production or improved service to consumers.

Such a Service could do much towards finding creative employment for talent of all kinds in the industry. One of its main functions in promoting efficiency would be to make the fullest use of available human capacity. All its experiments and researches might therefore be designed to draw on experience from every part of the industry through standing committees and travelling agents. The agents would have the double task of collecting information from local managements and at the same time imparting new ideas, the two processes being very easily wedded. The personnel for committees and agency work could be recruited largely from the ranks of former entrepreneurs, provided that they were technically qualified.

If emphasis up to this point has been laid mainly on personal, psychological problems there are important reasons. In the first place, an industrial system is a human institution: its smooth, efficient working depends perpetually on the goodwill and driving force of the whole staff, and in particular on the attitude of men in key places. Secondly, the purpose of the system is to serve individuals. It serves them not only as consumers but also as producers, that is, as men who play a part in the service and gain much of their life's interest from that part. In order to commend a new system to free men it is necessary to demonstrate that the system offers scope for each individual.

### *Railways*

The nationalising of the Railway system will raise no large economic problem. Already the Railway services are combined into such huge units that further combination will not provoke issues of greater or less economy or of change in competitive conditions. The

necessary comparison of efficiency of different lines, no longer possible through the returns of separate companies, can be made through cost accounting.

State control of the Railways will provide an example of a method of nationalisation which may become typical. It will be helpful to indicate how a scheme for this industry would fit into the general system of national planning.

### *The National Hierarchy*

It is assumed here that, as in a regime of Private Enterprise, the Planning Authority under State-ownership will be an Economic Cabinet similar in size to the War Cabinet. The Planning Authority will be subject to Parliament, which, in turn, will be elected as formerly by the votes of the British people.

Under the Planning Authority's direction will come all the existing Ministries responsible for different branches of industry, such as the Ministries of Agriculture and Fisheries, Mines, Fuel, Transport, Shipping, Works and Planning and the Post Office, together with any further Ministries which may be formed to deal with newly nationalised branches of trade such as Textiles or Marketing.

Each Ministry will appoint the executive body to control the industry for which it is answerable. The Ministry of Transport, for instance, will set up a Railway Control as the supreme executive for railways.

The Railway Control will in turn appoint the directors of the various departments into which railroad administration is divided. In the case of an industry like Coalmining which is divided into districts rather than departments, the national Control will appoint the District Directors.

Directors of departments or of districts will appoint the managers of subordinate services, mines or works.

An Efficiency Service will be needed by every national Control. Thus the Railway Control would establish an Efficiency Service for researching into economy and security in rail transport, and into the improvement of amenities in travel. On the hypothesis that the function of a passenger transport system under State-ownership is to maximise the number of man-miles afforded, the Efficiency Service would evolve schemes to this end on the basis of different levels of

subsidy. In addition it would study problems of railroad extension, replacement and machinery.

The hierarchy thus sketched represents the autocratic part, though not the only part, of the administration. Efficiency demands some autocratic element, together with an unbroken chain of command from headquarters to the ultimate field of operation. At each link in the chain the responsibility of the officer in charge must be undivided. Nevertheless, certain effective checks may be necessary to safeguard justice. In every industry there must be an organisation for ensuring that measures of efficiency are not short-sighted, that economy judged by material standards is not gained at the expense of health and other values, that all employees are treated equally, and that working conditions, methods of pay and levels of wages conform to agreed notions of fairness.

In a democracy Parliament is the supreme guard over personal rights ; and every Minister responsible for an industry would answer to Parliament for any reported inequity. To assist him, the Minister would require a further hierarchy, at the head of which would be a national Board — in the case of the railways, a national Railway Board — appointed by himself. The function of the Board would be to make recommendations on matters of works conditions and personal treatment in the industry. It would comprise delegates from every section of the staff, managerial, clerical and operative. In order to ensure full knowledge of conditions, the Board would have a counterpart in every large unit, or suitable combination of units, throughout the industry.

The national Board would make its recommendations to the Minister, if necessary by majority and minority reports. The Minister would introduce regulations by Act of Parliament or Order or by direct instruction to the executive Control.

### *An Industrial and Economic Planning Council*

There remains for consideration the machinery for preparing the national plan as a whole. The Planning Authority would of course be finally responsible for the plan. But initiative might rest elsewhere. In the scheme recommended for Private Enterprise, an Industrial and Economic Parliament was proposed for inaugurating plans and, above all, watching over continuity. A similar body, though less elaborate,

might serve the same purposes under State-ownership : and a suitable equivalent would be an Industrial and Economic Planning Council composed of the members of the Economic Cabinet, all Ministers responsible for industries, all Chairmen of national Controls and one delegate from each national Board appointed as representing interests other than managerial.

The permanent secretary of this Industrial and Economic Planning Council would be the National Planning Commissioner. He would have the same functions as under Private Enterprise, and would attend all meetings of the Planning Authority as chief adviser.

### *The Price-Fixing Board*

A further point of resemblance with the Private Enterprise system of planning will be the need for centralising the fixing of prices and wages under the same Board. Certain main methods of fixing wages may be distinguished. One is to fix the price of the commodity — pig-iron of various grades, for example — and allow the industry concerned to distribute as wages and salaries the residual part of the price after meeting the costs of materials, power, depreciation and other charges. Such a method would create a strong incentive to efficiency, for the greater the output per man the higher the return per man. A different method would be needed when an artificially low price was maintained on social grounds. On the railways, fares might be reduced below an economic level, and a subsidy to maintain wages would then be necessary. In such a case the Price-Fixing Board will be obliged either to fix a separate rate of wages for each railway trade or clerical grade, or to fix a general rate per ton-mile of traffic, the total receipts from this rate being allotted to the Railway Board for distribution among all sections of the personnel. The distribution would be mainly by time rates on the Railways ; but in many industries payment could be by the piece.

In general, the Price-Fixing Board's task would be to determine all prices and to fix the wage-charge per unit of output of all industries. The national Board in each industry would then be responsible for distributing to the industry's personnel the aggregate wages received, and would use its own discretion as to the method of payment adopted, subject to a national minimum wage.

*The Banking System*

In a completely State-owned system it would be desirable to link together the Bank of England with all commercial banks to form a single Bank of Great Britain, which would become a Civil Service under the Treasury. For convenience the Issue Department and Banking Department of the Bank of England might be maintained as separate branches of administration; and the entire system of commercial banks might be grouped into one Trading Department.

The work of commercial banks will be much reduced in a State-owned system. Whereas under Private Enterprise four railway companies have accounts with many hundreds of mining companies, the nationalisation of the Railway and Coal industries would yield a single account which might be settled by cheque once in every six months. The economy in transactions calling for the use of Bank services would be incalculably greater in the case of industries containing many more units.

The Trading Department of the Bank would need much less staff than the aggregate administrations of the former commercial banks. Bank officers might therefore be transferred to other parts of the Civil Service for which they were already qualified, for instance, the large accountancy departments of the nationalised industries. Part of the work now done by banks would take place within each industry, transactions being no longer between private firms but between departments where they would be recorded and settled by means of offsetting accounts.

The Bank of Great Britain may thus be visualised as comprising three main branches, the Issue Department concerned with the issue of notes, the Banking Department which would continue to keep the national accounts of the Treasury, and the Trading Department which would keep the bank accounts of nationalised industries and of private citizens and firms.

It is of little moment how the returns of such a Bank are submitted to the public, that is, whether they are shown in one statement or in three. There could never be a run on the Bank since there is nothing for which to run. A deposit at the Bank of Great Britain affords the same security as a note issued by that institution. Moreover if the people at any time have a preference for notes, there is not the slightest reason for withholding them. No fear of inflation can arise, whatever



the Bank may do in this matter ; for as observed at the beginning of Part II, under State-ownership prices are arbitrarily fixed, and the amount of money in circulation is governed by the price level, not vice versa.

Furthermore, it is of no interest whatever whether the Bank holds its assets in the form of gold, buildings, land, bills or other securities. The value of every note issued depends solely on the prices at which the State sells its products ; nothing that the Bank may do in changing the character of its assets will either directly or indirectly affect this value.

### *Public Utilities*

The nationalisation of most public utilities will be a purely financial process involving the absorption of their shares by the State. Only in the few cases where the amalgamation of units would yield greater economy or security — for instance, in the supply of water and electricity — will there be need for administrative change.

### *Second and Third Levies*

The first stage of nationalisation may be said to be complete with the purchase of public utilities, the land, railway transport, coalmining interests, banking and insurance. State-ownership of other industries will involve decisions of principle together with detailed preparations for applying the principles. These matters may suitably be discussed in relation to the financial operations involved in the second and third levies. One chief problem will be that of valuation.

As capital is progressively absorbed by the State the valuation of whatever remains in private hands becomes more difficult. The demand for the capital rises, and its value begins to depend on factors other than its yield of interest. Private capital is a form of insurance against all economic loss ; and, more important to some men, it opens the way to independent business and the earning of an independent income. It provides a reserve, a source of income, and a means to further income.

In consequence, the effect of any decision to transfer industrial property to the State may be to raise abnormally the value of shares in companies which are not to be nationalised. Other shares will fall. To prevent a violent fluctuation in security prices following every

rumour of Government intention, the Government will be well advised to announce in advance the prices at which it proposes to buy fixed-interest shares commonly quoted on the Exchange, and the method of valuing all capital for which forward prices cannot be quoted.

Before such an announcement can be made the Government will need to decide its time-table for the absorption of industries. This in turn will depend on a series of decisions concerning the types of industry which are ripe for immediate nationalisation, and the industries which should be excluded from the programme altogether.

*Criteria for Excluding Industries from Nationalisation*

The smallness of the typical firm in an industry may be accepted as one of the chief criteria governing the selection of industries to remain provisionally or permanently in private hands. Sections of farming, retailing, building, decorating, tailoring and dressmaking come into this classification. Other criteria include: the need for preserving certain basic freedoms, and thus for protecting the independence of the Press and of organs of education; the need for safeguarding liberty of artistic choice; and the degree of difficulty in maintaining efficiency and discipline.

The consideration of such tests would lead to the listing of all excluded sections of trade, and to the preparation of a further list ranking industries in their due order for national purchase. An order of absorption is tentatively suggested below:

- Export and Import (with special exceptions).
- Commercial Air Transport (till internationally owned).
- Liner Transport (till internationally owned).
- Long-distance Road Transport.
- Mining, Quarrying, Brickmaking.
- Blast Furnaces.
- Steelmaking.
- Tinplate.
- Heavy Engineering (certain branches).
- Shipbuilding and Marine Engineering.
- Wholesale Distribution.
- Retail Distribution, leaving initially a large area in private hands, to be gradually reduced.

Cotton, Wool and other Textiles (standard production, excluding applied art and special quality).

Central large-scale units in Building, Motor and Airplane manufacture, Radio, Printing, Paper-making, Furnishing, Timber, Selected Chemicals, Food manufacture, Leather and Shoe Making, and any light industries in which the large-scale production of certain standard grades is possible.

Stock Exchange quotations would be some guide to the valuing of part of the property covered by this list ; and the Government could state its purchase prices some months in advance of the date of purchase. A further large part of the property would be represented by shares in private companies and by the capital of partnerships and one-man firms. The various methods adopted for Estate Duty might be suitable for valuing such capital ; but there would be advantage in keeping the valuation fairly low, especially in the case of assets of small businesses, for the following reason.

Under the scheme of State-ownership certain small-scale producers will be allowed to continue operating privately ; their capital will nevertheless be subject to the levies if it is above the exemption limit. The payment of a substantial tax on assets which are not easily sold may, however, seriously embarrass a small firm. It involves either the sale of assets — often essential to the efficient working of the business — at a loss, or the acceptance of a permanent mortgage on the assets, which is especially burdensome to any firm whose fortunes are liable to fluctuate.

A sound principle might be to adopt as basis of valuation either the estimated sale value of the producer's assets, or the capitalised value of their earning capacity, whichever was the less.

The chief need in any event is to apply some principle which can be made clear. Whatever the method used it will not cause serious personal hardship. The Personal Incomes Commission is assumed to be permanently in existence to remedy any loss of consuming power, whatever the character of the levy.

### *The End of the Period of Transition*

The purchase of industries through the second and third levies would enable the Government to gain a foothold in substantially every

branch of the national economy. No doubt the complete nationalisation of some industries would be difficult and undesirable ; but in all cases the State-ownership of a part of the industry would seem sound. In Engineering, for instance, the best procedure would be to integrate backwards from the construction of important products such as ships, rolling stock, steel structures and motor cars, with a view to gathering into each combination enough engineering firms to form a self-sufficient industrial pyramid. Outside such pyramids many engineering firms would operate independently. In other industries the Government might control the production of standard output while leaving to private initiative the manufacture of specialised goods. In yet others, the Government, while intending ultimately to extend its control, might begin by absorbing only a small part of the industry, either because hardship through loss of function would be caused if the whole were at once purchased, as in retailing, or because the task of constructing nationalised units will inevitably be gradual, as in Farming, Fishing and Building.

The period of transition may be regarded as complete for the purposes of economic planning as soon as the Government has established an "expansion area" in every industry and has in the aggregate covered about 75 per cent. of the whole.

The purpose of the spread of State control is not primarily to increase technical efficiency in the zone of control. The essential aim is to gain simplicity in planning.

The key to the new simplicity is found in the fact that anyone who applies to the State for work can be employed at once in State factories. If these factories begin to produce more than is sold, the State raises all wages, and the new demand absorbs the supply. If more money is required to raise the wages, the State issues the money for the Bank. Simplicity dwells likewise in the fact that every State unit can abandon itself unreservedly to the campaign for maximum production. Since the State can regulate consuming power through wage control extended to all parts of industry via the Price-and-Wage-Fixing Board, it can ensure that demand rises rapidly enough to cause impending scarcity over a large area of supply. If over-production is appearing in any other area, there is a plain remedy. Either a drop in the prices of the over-produced goods or the transfer of labour to factories producing scarce goods will bring adjustment. Meanwhile, until the

adjustment is made, units manufacturing goods which are temporarily in excess can continue producing for stock.

The fears and inhibitions which trammel Private Enterprise — the employer's fear of "spoiling the market" and precipitating a collapse of prices, the worker's dread of reaching the end of a job which may be his last — can no longer cause reduced speed or output. Under State-ownership there must be profound psychological release in complete self-abandonment to the single aim of creating fresh records in quantity, quality or performance.

The one planning difficulty which remains after any change of system is that of labour transference. Fundamentally, every organisational problem under State-ownership can be reduced to terms of industrial "processing", that is, the production of all things in their due order from the extraction of the requisite raw material, the building of the factory and the creation of the machine tool and the machine, to the final distribution of the goods across the counter. For this task — the production of items in due order — mobility of labour is indispensable.

The problem of rendering the labour force mobile enough raises questions not only of housing, transport and local supply, but also of proper incentives for making transference attractive. In wartime the problem of labour mobility is invariably solved; in peacetime its solution calls for new inducements, consisting primarily of variations in wage rates. Workers who register as part of the mobile force will come to be recognised as especially valuable to a planning community and will be paid accordingly.

A final note is necessary on the task of keeping the system of State-ownership permanently in being.

The retention of 25 per cent. of industry in private hands does not in itself represent a dangerous fissure in the system's defences. Nevertheless, it would be sound to arrange for further diminution of the ratio. In any effectively planned system, such private enterprise as survives will gain the benefit of a powerfully maintained demand. Profits and savings will be considerable, and large disparities in ownership will again emerge unless capital taxation continues with the aim of endowing the State with more property. In other words, private ownership will spring up again unless the opposite tendency is deliberately created. Psychologically it is sound to pull upstream even though the existing position on the river is far above the rapids.

## CHAPTER XXVI

### *The Choice of Plans*

IN the summary below, two four-year plans are compared — the one appropriate to Private Enterprise, the other containing measures for creating State-ownership. In each plan the first year will be assumed to cover the first and second post-war phases as described in Chapter VII. The second and third years of the plan will correspond to the third and fourth phases respectively. And the fourth year will coincide with the beginning of the fifth or permanent phase.

#### THE FIRST YEAR

##### *Maintaining Consumption*

###### *Private Enterprise*

Immediately after the Armistice the initial task will be to prevent a collapse in consumers' demand. The steps proposed are :

- (1) The grant of full pay for the first four weeks of unemployment to all workers discharged from war employment.
- (2) Ample gratuities for demobilised men and women.
- (3) Family endowment.
- (4) The completion of State organisation for establishing a minimum standard of living.

Reserve schemes for reinforcing consumption, in case the above measures should prove inadequate, might be selected from many options, the simplest being an "anti-slump donation" to all citizens. Other measures specially favoured are (1) a rebate on rates and (2) a bonus on all State benefits and pensions.

The maintenance of demand will be rendered easy in proportion as industry itself undertakes expansion. To establish confidence will therefore be an immediate concern. Appropriate steps include :

- (1) The full preparation of reconstruction plans, so that they may be announced by the Prime Minister on the first day of peace.
- (2) The lowering of tax rates for the first year.

- (3) The liberal supply of bank credit at low rates.
- (4) Provision of fixed-interest medium-term reconstruction loans to be distributed to firms under the direction of the Ministry of Supply.
- (5) A scheme of medium-term export credits, developed through the agency of the Export Credits Guarantee Department.
- (6) An international forward exchange system for protecting importers against changes in the value of foreign currencies.
- (7) A declaration of permanent intention to prevent either a rapid rise in the British price level or any appreciable fall.
- (8) Guarantees to the separate industries (see later).

The financing of consumption during the first year would be through the continuance of wartime methods. That is, more than half the national expenditure would be met by borrowing from the public and from the banks.

### *State-Ownership*

No change whatever in the above programme, apart from the nature of the guarantees to be given to industries, would be required in a national plan designed to establish State-ownership. Under such a plan, preparation would be at once started for the nationalisation of selected industries. But until the arrangements were complete, the Capital Levy for financing the purchase of the industries would not be necessary.

### *Prices*

#### *Private Enterprise*

Wartime controls over prices will be maintained under the proposed plan except where superseded by voluntary schemes.

An Industrial and Economic Parliament is to be established for assisting in the preparation of the national plan; and one of its first tasks will be to form a committee for each industry to develop schemes of reconstruction, including arrangements for fixing maximum prices.

The general price-fixing plan to be developed would thus be a composite scheme comprising the following measures:

- (1) The continuance of official controls in the case of essential goods such as food, housing, coal, gas, electricity and other public utility supplies.

- (2) The development of voluntary systems of price-fixing in industries in which goods can be standardised.
- (3) The creation of a Price-Fixing Board by the Industrial and Economic Parliament, as the final court for the determination of prices and wages.
- (4) The continuance in force of the powers granted by the Board of Trade under the Prices of Goods Act, 1939, and the Goods and Services (Price Control) Act, 1941, to fix maximum prices and charges for goods and services, and to establish a system of inspection.

There would be a severe strain on the above price-fixing machinery as soon as the replacement boom added its force to inflationary tendencies arising from world-wide scarcity. The pressure would grow less in Great Britain as the Minister of Supply was able to assist essential-goods industries to increase production through reinforcements of labour, imports and credit. This is an immense administrative task involving labyrinthine controls affecting every important branch of the country's economy; a summary has been attempted elsewhere (pp. 116-8).

### *State-Ownership*

The programme designed to establish State-ownership will be required to yield all the above results, but the machinery will in part differ.

In place of an Industrial and Economic Parliament it is suggested that a smaller body comprising members of the Economic Cabinet and all Ministers responsible for industries, together with all national Controllers of Industries and one delegate from the national Board of each industry, should be formed into an Industrial and Economic Planning Council to advise the Planning Authority (the Economic Cabinet).

This Industrial and Economic Planning Council would then set up a Price-Fixing Board. Under State-ownership the Board would bring all prices under its *direct* control. Thus, any price-fixing measures which survived from the war period would be retained purely as interim arrangements, pending the concentration of all controls under the Price-Fixing Board.



Furthermore, there could be no question of preserving the wage-adjustment machinery of Private Enterprise. The wage margin allowed to each industry as its due share of the price received for output would be determined by the Price-Fixing Board.

The Board itself would necessarily adhere in its decisions to general lines of policy laid down in the national plan ; and its decisions would be subject to review by the Economic Cabinet as the supreme Planning Authority.

### *Special Schemes*

#### *Private Enterprise and State-Ownership*

In both plans it will be of instant importance to give guarantees to industries and inform industrial leaders precisely what is the Planning Authority's intention regarding each branch of trade and manufacture. In some cases the action will be the same whatever the general economic system proposed.

The table below contains a summary of suggestions, most of which have been submitted in some detail earlier.

Under Private Enterprise "nationalisation" may mean State control without State possession. In the case of the Railways, for instance, existing shareholders might receive Government-guaranteed shares in the new British Railway Corporation in place of their former variable holdings. The Government would then assume all risk and safeguard the actual owners, the private shareholders.

Under State-ownership such an arrangement would not be possible. Railway shares, for instance, would be partly surrendered to the Government through the first Capital Levy and the remaining shares would be bought with the proceeds of the levy. Thereafter the State itself would receive the equivalent of interest from railway earnings.

The following summary of industrial measures is not intended to suggest plans for application in the first year : it indicates the programme which might be forthwith announced, the main purpose being to provide a basis of certainty for producers in all spheres.

## THE ALTERNATIVES

PT. V

Industry	Treatment in a plan based on —	
	(a) PRIVATE ENTERPRISE	(b) STATE-OWNERSHIP
Insurance . . .	Nationalisation as soon as plans can be prepared.	As for Private Enterprise.
Land . . .	State purchase, largely postponed till the "fifth phase".	State purchase with the proceeds of the first levy.
Agriculture . . .	<ol style="list-style-type: none"> <li>1. Avoidance of nationwide deflation.</li> <li>2. International planning to prevent under-consumption and over-production.</li> <li>3. State-owned and State-controlled Marketing Boards.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. As for Private Enterprise.</li> </ol>
Railways . . .	Nationalisation as soon as plans can be prepared.	<ol style="list-style-type: none"> <li>3. As for Private Enterprise.</li> <li>4. The establishment of State farms.</li> </ol>
Road Transport . . .	<ol style="list-style-type: none"> <li>1. Nationalisation of all A licence traffic and long-distance transport.</li> <li>2. Continuance of C licences for short-distance distribution.</li> </ol>	As for Private Enterprise.
Shipping and Shipbuilding	<ol style="list-style-type: none"> <li>1. Inclusion of naval and passenger shipping in the same Budget Vote, the amount voted being such as to maintain stable employment in the combined production of naval and passenger ships.</li> <li>2. Formation of a national Liner Corporation with a fixed ship-replacement rate.</li> <li>3. Regular State purchase of tramp ships for resale or rent.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. <i>N.B.</i>—The nationalisation of other industries would imply the nationalisation of their transport services.</li> </ol> <p>Nationalisation of all shipping and shipbuilding except the building of small craft.</p>
Engineering . . .	<ol style="list-style-type: none"> <li>1. Reconstruction loans and guaranteed export credits to finance re-equipment at home and abroad.</li> </ol>	1. As for Private Enterprise.

Industry	Treatment in a plan based on—	
	(1) PRIVATE ENTERPRISE	(2) STATE-OWNERSHIP
Engineering—continued	2. Stabilisation of the demand for engineering products through planned investment.	2. As for Private Enterprise.  3. Absorption of engineering units into the nationalised industries which they serve.
Iron and Steel . . .	1. European Steel and Pig-iron Trusts. 2. Failing this, fixed import prices for iron and steel products.	1. European State-owned Trusts. 2. Failing this, nationalisation of all large-scale processes by State purchase of shares of existing firms. 3. Increase of size of plants and further combination into composite units.
Coal . . . . .	1. International agreements on hours, export prices, quotas of export and minimum wages. 2. Nationalisation of all mines.	1. As for Private Enterprise.  2. Nationalisation of all mines with the proceeds of the first levy.
Building . . . . .	1. Planned rapid expansion to meet reconstruction needs; thereafter, stabilised high level of building replacement. Control of rate of activity by varying subsidies and Local Authorities' programmes. 2. Formation of a national Department to undertake large building contracts with standard units.	1. As for Private Enterprise.  2. The same programme extended rapidly through the State-purchase of large firms.
Building Materials Industries	Guarantees derived from the Building plan.	Nationalisation of Brick-making Quarrying, Timber and large-scale branches of other industries.

## THE ALTERNATIVES

PT V

Industry	Treatment in a plan based on —	
	(i) PRIVATE ENTERPRISE	(ii) STATE-OWNERSHIP
Cotton . . .	<ol style="list-style-type: none"> <li>1. Nationally organised Export.</li> <li>2. Licensing of firms.</li> <li>3. State provision of machinery.</li> <li>4. Nationalisation of a fringe of firms to undertake public contracts.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. Nationalisation of all parts of the industry save the manufacture of special-quality goods.</li> </ol>
Home-Consumption industries: Food; Wool and other Textiles; Leather, Boot and Shoe; Motor Cars; Radio; Paper, Printing, Publishing; Hotels, Laundries; Entertainments	<ol style="list-style-type: none"> <li>1. The raising of consumption by provision in kind and advance in consumers' incomes.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. The nationalisation, where possible, of large central plants for the mass production of standard output.</li> </ol>
Distribution . . .	<ol style="list-style-type: none"> <li>1. Establishment of Import Boards and Export Boards for all main imports and exports.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. Nationalisation of all marketing from nationalised industries and units.</li> <li>3. Nationalisation of large stores.</li> </ol>
Public Utilities . . .	<ol style="list-style-type: none"> <li>1. Organisation of Reserve Schemes.</li> <li>2. Planned investment.</li> </ol>	<ol style="list-style-type: none"> <li>1. As for Private Enterprise.</li> <li>2. State purchase of shares with proceeds of first levy.</li> </ol>
Banking . . .	Guaranteed rate of profit (average rate for all Clearing Banks).	Nationalisation of entire system to form one Bank of Great Britain.

## THE SECOND YEAR

### *Private Enterprise*

The problems confronting the Planning Authority in the second year relate almost wholly to the Budget. If the replacement boom develops strongly, there will be no call for a planned increase in consuming power ; and as regards price-fixing and Special Schemes, nothing more will be required than to extend measures already begun. Hence, during the second year, although the threefold scheme of planning will be always implicit, it will not call for attention. Interest will be confined to budgetary tasks.

The second year after the war may not coincide with the second financial year. If the two periods differ much, it would be desirable to introduce a special Budget at some time between twelve and fifteen months after the war. The Budget would be divided into two parts : the Planned Budget, which would have been considered already by the Industrial and Economic Parliament, and the Current Budget.

### *The Current Budget*

Through the Current Budget a balance would be effected between the total of all regular expenditure and total revenue from all regular taxes : that is, between, on the one hand, outlay for social services, law, order, justice, defence and National Debt interest, and, on the other, receipts from customs and excise, income tax, excess profit duty, surtax and death duties.

There will be no need during the second year to use the Current Budget for increasing consuming power. The sole aim will be to make it balance.

### *The Planned Budget*

Under the Planned Budget provision is to be made for (1) the reduction of National Debt, (2) the redemption of war credits, (3) the creation of a reserve for expanding consumption.

For these purposes a Capital Tax might be imposed on personal fortunes exceeding £10,000, the rates of tax being such as to yield £1500 million, of which £1000 million would be recognised as a reserve for raising consuming power at the end of the boom.

*State-Ownership*

A national plan having State-ownership in view will differ from the above in one important respect. The Capital Tax, instead of yielding a revenue of £1500 million, will be required to produce a sum of the order of £23,000 million. Small fortunes will be affected. The rate of tax will be high and steeply graded.

When the Capital Tax is announced, the Chancellor will set up a Personal Incomes Commission and outline its principles. The Commission will need to be fully staffed for examining claims in all districts as soon as the Capital Tax is imposed.

In addition, a scheme of social insurance for all workers, founded on a "salary" basis, would be in readiness not later than the end of the second year, reinforced by voluntary insurance schemes evolved by the nationalised Insurance Department.

## THE THIRD YEAR

*Private Enterprise*

The measures below, though applicable mainly during the third year, would be started as soon as it became clear that the replacement boom had passed its peak.

In order to know when this moment had come, the Planning Authority would prepare an index of private orders received by capital-equipment industries. A persistent decline in such orders would imply a prospective decline in replacement. If this occurred at a time when the productive capacity of consumption-goods industries had risen above that of 1939 — as shown by a further index — the Planning Authority would act at once. Its chief action would be to sustain consumption.

*Consuming Power*

Methods of increasing consumers' demand would include :

- (1) The redemption of war credits.
- (2) A further substantial rise in the "minimum standard of living".
- (3) The extension of educational grants to young people of school-leaving age.
- (4) Grants to local Councils for the reduction of rates.
- (5) The subsidy of health and travel.

These measures would be financed initially through the reserve fund provided by the Capital Tax. Later, part of the charge might be borne by the Current Budget.

The *amount* of the required increase in consuming power would be judged by means of statistics showing the potential increase in the output of consumption-goods industries, due to their modernisation and the absorption of labour from capital-equipment industries. The Planning Authority would gain sanction from Parliament for expenditure exceeding the amount estimated to be necessary, and would continue to raise consumers' incomes till the employment index, analysed by industries, revealed a satisfactory rate of transference of labour from capital-equipment trades to the production of consumption-goods.

### *Prices*

The maintenance of the price ceiling will present no difficulty in the first months of the post-boom period, since the general price tendency will be downwards.

### *Special Schemes*

Immediately the warning is given that the boom is over, the "reserve schemes" will be launched. These are stop-gap measures designed to absorb workers from capital-equipment trades pending their transfer to expanding consumption-goods industries.

At the same time State Industries will be established in all parts of the country.

### *State-Ownership*

The above third-year programme would be reproduced in almost every detail in the scheme for creating State-ownership. But there would be important additions.

Through the first Capital Levy all National Debt would be extinguished, and the State would become the owner of the land, railways, insurance companies, banks, coalmines and public utilities.

The rent and interest formerly derived from these by private shareholders would accrue to the State. Regular State revenue would thus be much enlarged and the Current Budget would become less important. Most consumption taxes might be eliminated from it.

A second Capital Levy would be in preparation at the end of the third year.

#### FOURTH AND SUBSEQUENT YEARS

##### *Private Enterprise*

The process of consolidation beginning in the fourth year will call for the planning of consumption and investment, so that these two factors follow mutually related and, in general, rising curves.

##### *Maintaining Consumption*

The purposes for which consuming power is to be increased will be determined by the nationally accepted hierarchy of values.

The amount of the increase each year can be estimated from statistics showing the potential rise in output of consumption-goods industries resulting from the introduction of modern plant and any labour still available.

This amount may be financed through—

- (1) A change from consumption taxes to direct taxes in the Current Budget.
- (2) The use of State borrowings, recognised under the Planned Budget, to finance State investment in durable assets.
- (3) The use of the reserve fund, replenished at intervals by a Capital Tax, to expand consumers' incomes directly.

Parliamentary sanction having been gained for expenditure in excess of the estimated need, consuming power would be raised till involuntary unemployment had completely disappeared and the numbers engaged in the State Industries had fallen to a low level.

##### *Prices*

To reinforce the scheme of price control a Gentlemen's Agreement is advocated for signature by all firms in the land.

##### *Special Schemes*

The main innovation in this last phase will be the launching of Special Schemes for the control of investment in the chief capital-using industries. Each scheme would be uniquely adjusted to the structure of the particular industry.

It is understood that at this point the State Industries will be fully



established and capable of training and transferring all comers, or otherwise guaranteeing the right to work to every citizen, regardless of his physical condition or lack of skill.

### *State-Ownership*

In the fourth and following years the method of planning under State-ownership will differ markedly from that employed in a competitive order. Precisely the same object is to be achieved, namely, the relating of the upward curves of investment and consumption. But the manner of raising consumption will steadily change.

Through the second and third levies the State acquires 75 per cent. of the country's productive capital and receives corresponding income. This income it distributes at will for either consumption or investment. If more money is needed for one of these purposes, the money is newly issued from the Banking Department.

No political problem is raised by this action. The Planning Authority itself has the power to adjust consumption and investment in consequence of its ownership of industry; it does not need to apply to Parliament for special taxation.

As regards the 25 per cent. of industry not owned by the State, wages in this section will be determined by the Price-Fixing Board. This gives further command over consuming power. Interest and rent will be widely distributed in the form of small additions to many incomes, the levies on capital having reduced all large fortunes. The private control of these small incomes will not disturb the Planning Authority's preponderant influence over consumption and investment.

A single form of Annual Budget might be retained for the taxation of private incomes and capital. The purpose would be less to reinforce the national plan than to prevent any substantial restoration of private ownership, or possibly to reduce such ownership further.

The outstanding distinction between the two programmes after the third year thus resides in the manner of increasing consuming power. Under Private Enterprise a periodical small Capital Levy is the main resort. Under State-ownership a series of large levies places the State in a position of ownership so that it can raise wages and other incomes from its own trading receipts and Bank money.

## THE COMPARISON

In this book Private Enterprise and State-ownership are being compared from the point of view of the planning of "full employment". It was shown earlier that the issue resolves itself into the difficulty of *planning* Private Enterprise versus the difficulty of *introducing* and then *maintaining* State-ownership. In a regime of Private Enterprise planning is confronted by many obdurate defences, both political and industrial. Under State-ownership, once established, the actual planning is fairly straightforward: there are no serious economic or political barriers, though the tasks of administration and mobilisation of labour are vast. The chief problems presented by State-ownership are that its introduction implies a change of status and loss of function for a considerable section of the community who may be expected to resist it, and that after the first pioneering stage State-ownership may disintegrate from within. It is necessary to explore these difficulties further.

*Frustrations Opposing State-Ownership*

A system of State-ownership driven solely with a view to efficiency would no doubt reject the non-technical non-managing director as ruthlessly as Private Enterprise rejects the unqualified manual worker. Even though the leaders of the new order were to show a completely catholic sensitiveness in attempting to invent jobs for all the dispossessed, the new jobs would have a counterfeit air. No real equivalent can be found under State-ownership for the role of entrepreneur pure and simple; and to remove a man's essential function is most deeply wounding. Those who foresee this menace will no doubt oppose it with every force they can muster.

The position of the sleeping partner or rentier is different. He or she has neither had nor wanted an industrial role in the old order, and would presumably be content to remain functionless in the new. Through a Personal Incomes Commission, living conditions for this group might be made entirely tolerable. Nevertheless, there is at least a mental distinction between possessing a large fortune in one's own right and being the recipient of a Government annuity charitably dispensed after a means test. Transition to State-ownership will profoundly affect the status of a certain social stratum which under the

old regime was exalted and privileged. The change may be for the good ; it is certainly unavoidable if the system is changed.

The war appears to be preparing many for the acceptance of such transformation. The cost to those who suffer the discomfort will not be physical, but purely psychological ; hence for all who see the change as social necessity the cost largely dissolves. Their physical security under a system of Government annuities might in many cases be enhanced.

The further problem of upholding State-ownership, once established, will be aggravated by impressive evidence of the defects of any Civil Service order. Within this system there will be malcontents as well as sincere sceptics and avowed enemies, and food for their arguments will abound. A community which is not dictatorship-minded will bitterly resent the outcrop of minor tyrannies which, though equally prevalent under competition, will seem less tolerable under State-ownership, where they may become more cunningly entrenched. Theoretically, it is always possible to place a democratic check on every individual in control, but the multiplication of checks leads to an even worse disease : rule by committees every member of which feels he must justify his appointment by some form of intervention. Where democracy implies the right of everyone to govern the moves on everyone else's board, the result is delay, friction, inhibition and, in the end, irresponsibility.

Intermediate between complete autocracy and complete committee control there is some point where the advantages of both are gained and the worst evils avoided, but this ideal will not be reached everywhere. A Civil Service system will inevitably produce the most exacerbating blunders, waste and injustices — as will every system till man is perfect.

Another weakness in such a system is the unwillingness of chiefs to face the personal unpleasantness of disciplining juniors. This is a failing which cannot be attributed in the same degree to a competitive system. In private business the profit test is inexorable. Relentless pressure bears on the heads of industry and through them spreads downward to the staff. At least there is no evasion of the discomfort of enforcing discipline. It is true that in a State-ownership system established through violent revolution the compulsion on the hierarchy

is equally drastic. Mismanagement is crime, and heads are forfeit ; and fear intermingles powerfully with every other motive in creating tense effort. But in a Civil Service system brought into being by unexciting constitutional process, neither revolutionary fear nor competitive fervour will drive anyone.

The most serious risk in State-ownership is, however, corruption. To establish this system in countries where the Civil Service is already notoriously corrupt would be to invite unimaginable mercenary evil. Nepotism, bribery and theft of communal property would have boundless scope. No doubt these things are rife in competitive business, but as a rule it is to the great advantage of some individuals to prevent their leading to a paralysing inefficiency. In a State-owned system it is the concern of nobody but the public-spirited ; and they, in general, are well pleased if they succeed only in remaining upright themselves.

Between those whose aim it is to become parasites on the system and others who seek its destruction in order to revert to private capitalism, a regime of State-ownership may disintegrate rapidly once its decline begins. There is no guarantee against this except the moral fibre of people. Whoever has the secret of creating sound men, indeed, he alone has the means of creating a secure and vigorous system, whether it be founded on private enterprise or ownership by the State.

The choice of economic systems depends ultimately on the judgment made of the way in which human character will respond to each system. In the chapter on Private Enterprise it was seen that the task of planning makes demands on literally every adult citizen. If the reaction of any substantial group is unfavourable, the whole national plan breaks down. Likewise, under State-ownership, although the tasks of planning are less intricate, there being no Budget difficulties of any kind, the outstanding problem remains of preventing the system itself from decomposing. In both systems everything depends on man. And any conclusion as to the way in which he will react to the one or the other can be based only on personal conviction. Economic analysis may clarify the issues. It cannot provide the judgment.

A judgment is, however, necessary. After the war all nations will be faced with the alternatives of Private Enterprise and State-ownership. The choice will present itself forcibly, and every politically conscious citizen will have a voice. I think it would be impossible to conceal my

own view although it inevitably rests on many imponderables. I started the enquiry in the full expectation that Private Enterprise could be made to work. I end with the sense that I should be sinning against the light if I cast a vote in its favour. Such reasoning as can be found to support this view has been already indicated, but the salient thought is this : State-ownership lends itself to order. Private Enterprise is by nature *unordered*, and it requires an immense effort of central co-ordination to overcome its intrinsic tendency to lack of order.

Moreover, this war is not for nothing. One thing it has proved : that international disorder is intolerable. Believing, as I do, that economic order is essential to political and international order, I cannot escape the conviction that whatever system is most capable of contributing to order is destined, sooner or later, to come into being.

The least comfortable stages in the development of State-ownership are the first ; and if as a country we can strike through to the end of these stages immediately after the war, before our hearts have hardened, the worst strains will be over. Perhaps this is part of the war's meaning.

As for the long-term task of preserving State-ownership from internal decay, the theory is simple, but the practice is less so. The subject would demand a third volume, if the writer were equipped to treat it. This discipline-efficiency problem remains a fundamental issue of all time, whatever the character of the system, and civilisation depends on its perpetual solution.

It is a practical point that, should the system of State-ownership break down, the worst that can happen in the economic sense is the reversion to private enterprise. Basically, however, a conviction regarding the desirable future system is not drawn from this kind of logic. Rather it is derived from a sense of historical trend. Something is "intended". Life is emergent. There is an obvious reaching-out towards new degrees of achievement and organisation. As regards systems, then, what is coming ? There are but two types of system. Are we in train for the second ? Is that a part, even though it be a minor part, of the interpretation of this world's convulsion ?



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